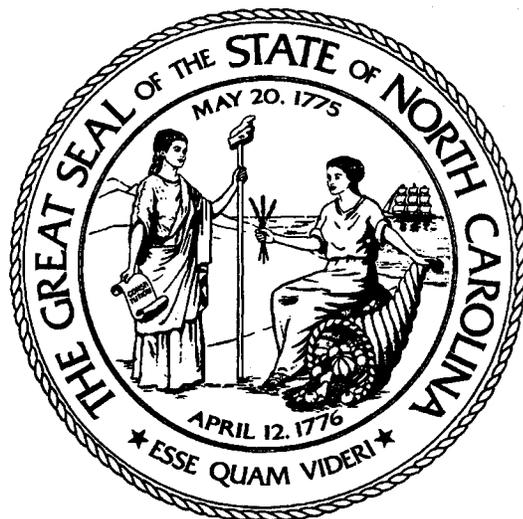


LEGISLATIVE RESEARCH COMMISSION

DEDICATED SOURCES OF REVENUE



**REPORT TO THE
1998 SESSION OF THE
1997 GENERAL ASSEMBLY
OF NORTH CAROLINA**

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STATE OF NORTH CAROLINA
LEGISLATIVE RESEARCH COMMISSION
STATE LEGISLATIVE BUILDING
RALEIGH 27601-1096

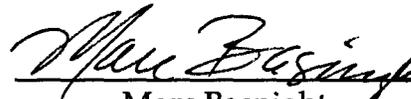
May 11, 1998

TO THE MEMBERS OF THE 1997 GENERAL ASSEMBLY (REGULAR SESSION 1998):

The Legislative Research Commission herewith submits to you for your consideration its report on the establishment and use of dedicated sources of funding for low-income housing, Legal Services of North Carolina, and professional firefighter retirement benefits. The report was prepared by the Legislative Research Commission's Committee on Dedicated Sources of Revenue.

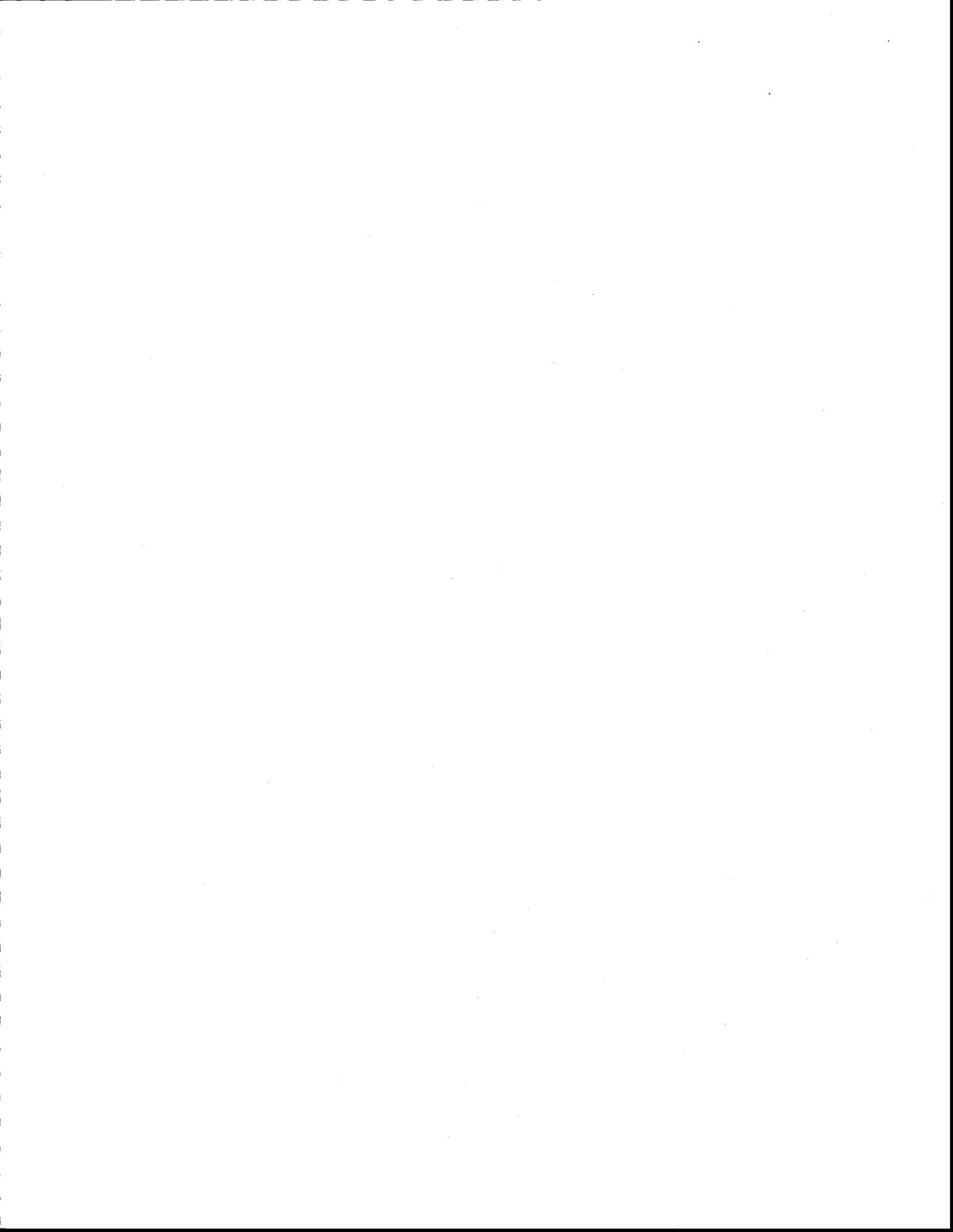
Respectfully submitted,


Harold J. Brubaker
Speaker of the House


Marc Basnight
President Pro Tempore

Cochairs
Legislative Research Commission





1997-1999

LEGISLATIVE RESEARCH COMMISSION

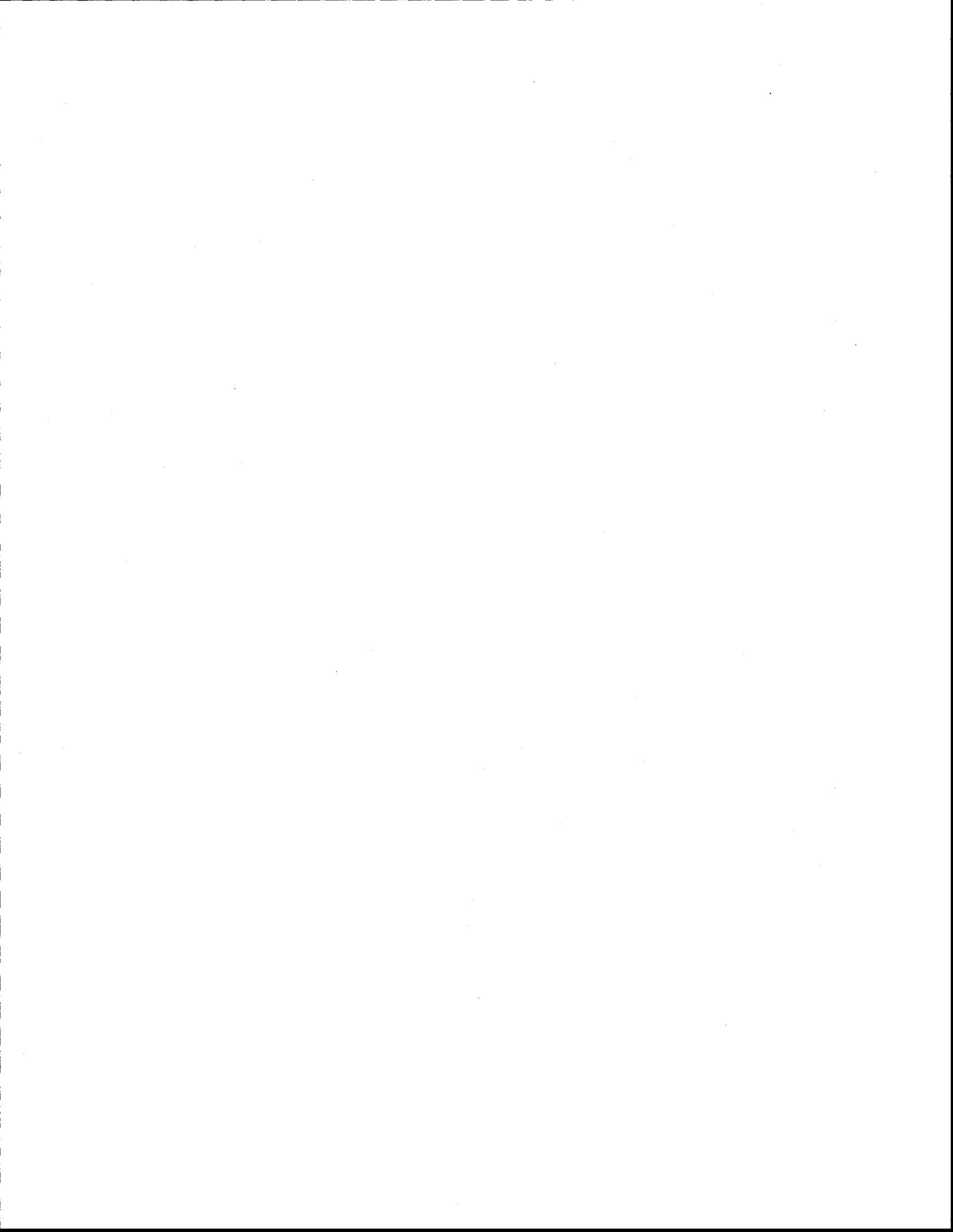
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Rep. Gregory J. Thompson



LRC COMMITTEE ON DEDICATED SOURCES OF REVENUE'S REPORT

Dedicating some or all of the revenue from a specific tax for a specific purpose with the intention that the designation continue into the future is commonly known as "earmarking". The Legislative Research Commission's Committee on Dedicated Sources of Revenue met three times before the 1998 Regular Session of the 1997 General Assembly to discuss the budgetary policy issues raised by earmarking.

The budgetary policy question earmarking raises is whether the inflexibility earmarking imposes on a state revenue system is sufficiently balanced by the guaranteed level of funding it provides programs. The heart of the state budget process consists of weighing funding priorities against one another. Earmarking limits this process to a greater degree than it would otherwise be. On the other hand, earmarking may be a desirable budgetary tool to perpetuate a stable and secure source of revenue for a particular program.

The Committee spent a considerable amount of time learning about the three programs the Legislative Research Commission asked the Committee to consider funding through a dedicated source of revenue. It heard from a number of people interested in low-income housing, Legal Services of North Carolina, and retirement benefits for professional firefighters. After deciding that the goals and purposes of the programs managed by the entities warranted a steady, dedicated source of funding, the Committee gathered recommendations on possible sources of revenue that could be dedicated to funding them. The recommendations of the Committee as to the dedicated sources of funding are contained in its recommendations and legislative proposals found in this report:

1. AN ACT TO RESERVE FOUR PERCENT OF THE UNRESERVED CREDIT BALANCE IN THE GENERAL FUND AT THE END OF EACH FISCAL YEAR TO THE HOUSING TRUST FUND AND TO RESERVE TWO PERCENT OF THE UNRESERVED CREDIT BALANCE IN THE GENERAL FUND AT THE END OF EACH FISCAL YEAR TO THE DEPARTMENT OF COMMERCE FOR THE CENTER FOR COMMUNITY SELF-HELP.

The Committee recommends that a portion of the unreserved credit balance remaining in the General Fund at the end of each fiscal year be earmarked to help fund the State's low-income housing needs. The proposal earmarks four percent or \$20 million, whichever is greater, to the Housing Trust Fund and two percent or \$10 million, whichever is greater, to the Department of Commerce for the nonprofit Center for Community Self-Help. The portion

earmarked for the Housing Trust Fund must be used in accordance with the statute creating the Fund. The portion earmarked for the Center for Community Self-Help must be used to further a statewide program of lending for owner-occupied home ownership. For the fiscal year ending June 30, 1998, \$28 million would be earmarked to the Housing Trust Fund and \$14 million would be earmarked to the Department of Commerce for the Center for Community Self-Help.

2. AN ACT TO DEDICATE A PORTION OF COURT COSTS TO PROVIDE ACCESS TO CIVIL JUSTICE.

The Committee recommends that a portion of the court costs currently credited to the General Fund be redirected to the NC State Bar and earmarked for legal services programs. The proposal does not increase court costs. The amount of court costs earmarked for Legal Services in 1998-99 is \$4.00. This amount increases over six years until, by the fiscal year 2003-04, the amount of money earmarked from the court costs for Legal Services is \$10.00. Each \$1 of court costs earmarked is a dedication of approximately \$1.5 million. The North Carolina Commission on the Delivery of Civil Legal Services to the Poor determined that it would take at least \$14 million in State funds to meet the most minimal legal needs of the poor. By the time this proposal is fully implemented, it will generate approximately \$14 to \$15 million for Legal Services.

3. AN ACT TO DEFINE A PROFESSIONAL FIREFIGHTERS' BENEFITS ACCRUAL RATE FOR MEMBERS AND BENEFICIARIES OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM.

The Committee recommends that the service retirement benefits of professional firefighters be enhanced by allowing the firefighters to retire with unreduced benefits on or after age 50 with 27 years of creditable service as a professional firefighter, or to retire on or after age 55 with five years of creditable service as a professional firefighter. It will take an estimated \$15.7 million to fund these enhanced retirement benefits. Professional firefighters are local government employees and their retirement benefits are funded by their local government employers. However, the Committee did not want to impose an unfunded mandate on local governments. Therefore, it is the recommendation of the Committee that the General Assembly appropriate the necessary \$15.7 million from the General Fund for this purpose. To obtain a revenue neutral proposal, the Committee recommends that the additional statewide premium tax rate on fire and lightning policies be increased to the extent necessary to generate \$15.7 million. The revenue generated by the increased tax rate would be credited to the General Fund.

PREFACE

The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is the general purpose study group in the Legislative Branch of State Government. The Commission is cochaired by the Speaker of the House and the President Pro Tempore of the Senate and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

The Legislative Research Commission, prompted by actions during the 1997 Session, has undertaken studies of numerous subjects. These studies were grouped into broad categories and each member of the Commission was given responsibility for one category of study. The Cochairs of the Legislative Research Commission, under the authority of G.S. 120-30.10(b) and (c), appointed committees consisting of members of the General Assembly and the public to conduct the studies. Cochairs, one from each house of the General Assembly, were designated for each committee.

The study of Dedicated Sources of Revenue was authorized by Section 2.4 of Chapter 483 of the 1997 Session Laws. Under the authority of that section, the Legislative Research Commission directed the Committee on Dedicated Sources of Revenue to "study the use of dedicated funding including the establishment of dedicated sources of revenue for the North Carolina Housing Trust Fund and other sources of low-income housing, Legal Services of North Carolina, and professional firefighter retirement benefits including the appropriate length of service required to receive such benefits." The relevant portion of

Chapter 483 is included in Appendix A. The Legislative Research Commission authorized this study under authority of G.S. 120-30.17(1) and grouped this study in its Government Services and Revenue Issues Grouping area under the direction of Senator Bob Martin. The Committee was chaired by Senator Frank Ballance and Representative Cary Allred. The full membership of the Committee is listed in Appendix B of this report. A committee notebook containing the committee minutes and all information presented to the committee is filed in the Legislative Library.

COMMITTEE PROCEEDINGS

Dedicating some or all of the revenue from a specific tax for a specific purpose with the intention that the designation continue into the future is commonly known as "earmarking". The Legislative Research Commission's Committee on Dedicated Sources of Revenue met three times before the 1998 Regular Session of the 1997 General Assembly to discuss the budgetary policy issues raised by earmarking. It identified the revenue sources that North Carolina currently earmarks and the purposes for which that revenue is dedicated. A chart identifying the North Carolina Dedicated Sources of Revenue is contained in Appendix C.

The Committee spent a considerable amount of time learning about the organizations the Legislative Research Commission asked the Committee to consider funding through a dedicated source of revenue. It heard from a number of people interested in low-income housing, Legal Services of North Carolina, and retirement benefits for professional firefighters. A list of the speakers that addressed the Committee on these three topics is contained in Appendix D.

After deciding that the goals and purposes of the programs managed by the entities warranted a steady, dedicated source of funding, the Committee gathered recommendations on possible sources of revenue that could be dedicated to funding them. The recommendations of the Committee as to the dedicated sources of funding are contained in its recommendations and legislative proposals found in this report.

Earmarking State Revenues

The level of earmarking among the 50 states varies considerably from about 4% in Kentucky to 87% in Alabama. The average amount of taxes earmarked by a state is 24%. North Carolina earmarked about 19% of its revenues in fiscal year 1993.

The most commonly earmarked tax is the motor fuel tax, followed by the general sales tax and the corporate and individual income tax. Transportation receives the largest amount of dedicated funding, followed by local governments and education. With the exclusion of the motor fuel taxes, the tax most commonly earmarked in North Carolina is the corporate income tax. Some of that earmarked revenue is dedicated to public school construction, but most of it is dedicated as reimbursement to local governments for the repeal of the property tax on inventories and intangibles. In recent years, North Carolina has imposed an additional sales tax on scrap tires, white goods, and dry cleaning solvents and earmarked the revenues from those tax levies to fund related environmental programs.

The budgetary policy question earmarking raises is whether the inflexibility earmarking imposes on a state revenue system is sufficiently balanced by the guaranteed level of funding it provides programs. The heart of the state budget process consists of weighing funding priorities against one another. Earmarking limits this process to a greater degree than it would otherwise be. On the other hand, earmarking may be a desirable budgetary tool to perpetuate a stable and secure source of revenue for a particular program.

There are four basic justifications for earmarking. Advocates of earmarking argue that it enforces the benefit principal: those who receive a service should pay for it. It also assures a minimum level of support and continuity of funding for specific projects or services. The third justification for earmarking is that it contributes stability to a

program's financial situation. And lastly, earmarking is often used as a way to induce the public to support new or increased taxes. For example, several local governments in North Carolina want the authority to ask their citizens if they would support an increase in the local sales tax rate if the revenue derived from it is used for education.

The four criticisms of earmarking are different expressions of the same theme: earmarking prevents comprehensive budgeting. One of the principles of good budgeting is to take all the revenues and all the potential expenditures into consideration, and then, through the give-and-take of the legislative process, determine the spending priorities. The first criticism of earmarking is that it hampers this ability by removing revenues and expenditures from the review that occurs in the appropriations process. Earmarking may also have a tendency to distort policy on the basis of decisions made in earlier years. The third criticism of earmarking is that it increases the difficulty of adapting budgets to changing economic and social conditions. The last criticism of earmarking is that it removes a portion of governmental activities from periodic review. Programs that are not reliant upon appropriations are likely to get less scrutiny than others, and past decisions to earmark revenue for a program may remain after the need for the program has changed.

Despite the criticisms, earmarking is an integral part of the state fiscal picture. Often the inflexibility earmarking imposes on a state revenue system is sufficiently balanced by the guaranteed level of funding it provides the programs funded by the dedicated revenues. The balance is more easily maintained if the criticisms can be negated. For example, a state should keep track of the percentage of its revenues earmarked so that budget flexibility can be maintained. The dedicated source of revenue should bear some relationship to the amount of revenues needed and the program's costs. Lastly, a state should maintain a periodic review of the revenues earmarked, the program's benefits, and the program's costs to ensure that the program is still a budgetary priority and that the level of funding is sufficient.

North Carolina Housing Trust Fund and other Sources of Low-Income Housing

The LRC directed the Committee to study the use of dedicated funding for the North Carolina Housing Trust Fund and other sources of low-income housing. The Committee invited the North Carolina Housing Finance Agency and the Center for Community Self-Help to describe their programs to it. Together, these two entities provide the opportunity for low-income citizens to purchase their own homes. However, the production of affordable housing requires planning and forward investments. A dedicated source of revenue would allow for profit and nonprofit housing sponsors in North Carolina to plan ahead and improve their effectiveness in delivering housing for working families and the elderly.

The mission of the Center for Community Self-Help is to create wealth and economic opportunity for people throughout North Carolina, particularly minorities, women, rural residents, and low-wealth families. In 1997, it helped finance \$5.8 million in home ownership loans to 100 families and it achieved \$80 million of new home loan commitments from BB&T, Centura, First Union, and Wachovia. The program has received national recognition as the country's leading nonprofit development bank.

Although Self-Help also provides small business loans and assistance to lower-income citizens, the aspect of its program that the Committee considered was its home ownership program. Many lower-income families cannot qualify for conventional mortgages because the agencies that purchase mortgages from banks are reluctant to buy these mortgages. Self-Help's Secondary Market Program buys a package of nonconforming loans from banks, and in return the banks make a commitment to re-lend the money to an equivalent number of lower-income home buyers in the future. To date, Self-Help has purchased mortgages for more than \$100 million from North Carolina banks with loan losses of less than one percent.

New investments in Self-Help are continually needed to provide capital for its Secondary Market Program. The General Assembly appropriated \$5 million to Self-Help last year. The organization leverages \$10 of non-state matching loan funds for every \$1 of State funds it receives. All of the State funds are used for program capital. Self-Help estimates that the State recoups its investment within three years from increased State and local income, property, and real estate transfer taxes

The General Assembly created the North Carolina Housing Trust Fund in 1987 to finance the production and rehabilitation of affordable housing. The North Carolina Housing Trust Fund's accomplishments include 7,000 homes built or rehabilitated and \$205 million of housing produced. It has been recognized with two national awards for the Special Needs Housing Program and the Urgent Repair Program. It has created housing opportunities in all 100 counties. Unlike the Self-Help program which concentrates exclusively on home ownership, the Housing Trust Fund exists to meet a diversity of housing needs, from first-time homebuyers to assisted living developments for the elderly, from special needs housing programs to transitional rental properties.

The Housing Trust Fund is able to accomplish these housing opportunities through creative local partnerships, some of which include partnerships with the Self-Help program. It has been used with over 20 different funding sources by for profit and nonprofit sponsors. The Trust Fund receives an average of \$5 million a year from General Fund appropriation. It leverages \$5 of total investment overall for each \$1 of State investment.

While the State has invested approximately \$10 million a year in these two housing programs for lower-income citizens, more funds are needed to fully meet the housing needs that exist in North Carolina each year. Twenty of the 37 trust funds that exist in the country have a dedicated source of revenue. In most instances, the dedicated source of revenue is a portion of the transfer tax or conveyance tax on property. This source of

revenue is often used to help finance housing needs because it is the source of revenue most closely related to the housing industry. Appendix E contains a chart showing the states that levy a real estate transfer tax and how those tax revenues are used.

North Carolina levies a conveyance tax of \$1 per \$500 of consideration. Half of this revenue remains with the county in which the property is located and the other half is credited to the General Fund. The State dedicates its portion of the tax revenue to the Parks and Recreation Trust Fund and the Natural Heritage Trust Fund. After much discussion, the Committee decided to earmark a portion of the unreserved credit balance in the General Fund to help fund the State's housing needs in lieu of expanding the conveyance tax or reallocating the portion of this tax going to the State. Legislative Proposal One contains this recommendation. Legislative Proposal One earmarks four percent of any unreserved balance remaining in the General Fund at the end of each fiscal year or \$20 million, whichever is greater, to the Housing Trust Fund. The Proposal also earmarks two percent of any unreserved credit balance or \$10 million, whichever is greater, to the Department of Commerce for the Center for Community Self-Help. The portion earmarked for the Center for Community Self-Help must be used to further a statewide program of lending for owner-occupied home ownership. A portion of the unreserved credit balance is already earmarked for the Savings Reserve Account, Repairs and Renovation Reserve Account, and the Clean Water Management Trust Fund.

Legal Services of North Carolina, Inc.

Legal Services of North Carolina (LSNC) is a nonprofit organization created in 1976 to help provide free legal representation to poor people in civil matters. LSNC has 12 geographically based legal service programs located throughout the State serving 83 counties and it works with three other geographically based legal services programs

which serve the remaining 17 counties. Appendix F contains the mission statement of LSNC and some facts about the organization.

LSNC's clients are diverse, encompassing all groups and ages. The clients of LSNC include battered women, children and youth, the disabled, the elderly, farm workers, the homeless, single parents, the unemployed, and victims of crime. More than 30% of the cases handled by LSNC is in the area of family law, and most of those case involve domestic violence. Housing and income maintenance are the next highest demand areas, followed by consumer finance and employment.

The Legal Services Corporation is the national corporation established by Congress for the purpose of administering the funds appropriated by Congress to provide legal assistance to poor people in civil cases. In 1976, the Legal Services Corporation board, appointed by President Ford, determined that to achieve minimum access to justice for the poor, there would need to be one legal services attorney for every 5,000 eligible clients. By federal guidelines, persons with an income lower than 125% of the federal poverty level are eligible for legal services. In North Carolina, there is only one legal services attorney for every 15,000 eligible clients. For the rest of the population in North Carolina, there is one attorney for every 450 people.

The goal of LSNC is to have an adequate number of attorneys to meet the civil needs of the indigent population in North Carolina. There are 1.2 million financially eligible indigent clients in North Carolina. To provide a minimum level of access for these indigent clients, LSNC would need 260 attorneys. Currently, LSNC has approximately 80 attorneys.

LSNC has never had sufficient funding to provide for the legal needs of the State's eligible clients. This fiscal year, LSNC has received total funds in the amount of \$9,809,000. Of this amount, it received 57% in federal funds through the Legal Services

Corporation, 12% from the Interest on Lawyers Trust Accounts (IOLTA), 13% from State appropriations, and the remainder from local funding sources and grants.

Not only has the funding been insufficient, it is insecure and often erratic, making planning for the future extremely difficult. Since 1981, federal funding through the Legal Services Corporation has declined significantly. Since 1989, the General Assembly has appropriated at least \$1,000,000 a year, but the amount has varied. The North Carolina State Bar provides some funding through the IOLTA program, established in 1986. The IOLTA funds are tied to interest rates and are less now in absolute terms than they were in 1992 or 1993. Not only are the IOLTA funds unstable because of changing interest rates, they may also be extinguished altogether. The IOLTA programs, which are in effect in all 50 states, have been challenged in a law suit as being illegal taking of property. The case was argued before the United State Supreme Court in January and a decision is expected this summer.

Recognizing the funding problem that has plagued LSNC since its inception, the North Carolina State Bar and the North Carolina Bar Association convened the North Carolina Commission on the Delivery of Civil Legal Services to the Poor. That 20-member Commission determined that LSNC would need at least \$14 million in State funds to increase its staff enough to provide a minimum level of representation for the eligible clients in North Carolina. The Commission unanimously concluded that dedicating a portion of the court costs would be the most viable solution to secure, stable funding. Based on February 1997 figures, the dedication of \$10 of court costs in each civil and criminal case would be required to reach the funding level of \$14 million in state funds.

In approximately 20 states, legal services programs receive dedicated revenue from earmarked court costs as a way of supplementing funding for access to justice. Appendix H contains a chart showing what other states are doing to provide funding for legal services. The Committee decided to dedicate a portion of the court costs already collected

to LSNC; it did not vote to increase court costs. Legislative Proposal Two contains this recommendation.

Professional Firefighter Retirement Benefits

The LRC directed the Committee to study the use of dedicated funding for professional firefighter retirement benefits, including the appropriate length of service required to receive such benefits. David Anders, with the Professional Fire Fighters and Paramedics of North Carolina, informed the Committee that North Carolina is the only state that does not offer 25-year full retirement for firefighters. Stanley Moore, a fiscal analyst in the Fiscal Research Division, gave the Committee an overview of how firefighters' retirement benefits compare with local law enforcement officers, State law enforcement officers, and other State and local employees. Appendix I contains a chart comparing the retirement benefits of these public employees.

The Committee learned that the primary disparity in North Carolina between firefighters and law enforcement officers is the number of years firefighters must work to retire early with reduced benefits. State and local law enforcement officers can take early retirement at age 50 with 15 years of creditable service, while firefighters must have 20 years of creditable service to retire at age 50 with reduced benefits. Another disparity is that local law enforcement officers can retire with full benefits at age 55 with five years of creditable service. To retire with full benefits, firefighters must (1) be age 65 with five years of service (2) be age 60 with 25 years of service or (3) have 30 years of creditable service regardless of age. The Committee felt that both of these professions could be considered hazardous professions and they should be treated similarly.

Legislative Proposal 3 defines the term "professional firefighter" and recommends that professional firefighters be allowed to retire with unreduced benefits on or after age 50 with 27 years of creditable service as a professional firefighter , or to retire on or after

age 55 with five years of creditable service as a professional firefighter. It will take an estimated \$15.7 million to fund these retirement benefits. Professional firefighters are local government employees and their retirement benefits are funded by their local government employers. The Committee did not want to impose an unfunded mandate on local governments and, therefore, recommends that the General Assembly appropriate the necessary \$15.7 million from the General Fund. To obtain a revenue neutral proposal, the Committee's proposal raises the additional statewide premium tax rate on fire and lightning policies. The majority of the proceeds generated by this tax go to the General Fund.

FINDINGS AND RECOMMENDATIONS

The LRC Committee on Dedicated Sources of Revenue recommends the following bills to the 1998 Session of the 1997 General Assembly. Each proposal is followed by an explanation, a fiscal note indicating any anticipated revenue gain or loss resulting from the proposal, and, where appropriate, an actuarial note.



GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1997

S or H

D

LEGISLATIVE PROPOSAL 1

98-LA-012 (Z)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)

Short Title: Funds for Low Income Housing.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO RESERVE FOUR PERCENT OF THE UNRESERVED CREDIT BALANCE
3 IN THE GENERAL FUND AT THE END OF EACH FISCAL YEAR TO THE
4 HOUSING TRUST FUND AND TO RESERVE TWO PERCENT OF THE UNRESERVED
5 CREDIT BALANCE IN THE GENERAL FUND AT THE END OF EACH FISCAL
6 YEAR TO THE DEPARTMENT OF COMMERCE FOR THE CENTER FOR COMMUNITY
7 SELF-HELP.
8 The General Assembly of North Carolina enacts:
9 Section 1. Article 1 of Chapter 143 of the General
10 Statutes is amended by adding a new section to read:
11 "§ 143-15.3D. Housing Fund.
12 (a) The State Controller shall reserve to the Housing Trust
13 Fund, established in Chapter 122 of the General Statutes, four
14 percent (4%) of any unreserved credit balance remaining in the
15 General Fund at the end of each fiscal year or twenty million
16 dollars (\$20,000,000), whichever is greater. The funds in the
17 Housing Trust Fund shall be used only in accordance with Chapter
18 122E of the General Statutes.
19 (b) The State Controller shall reserve to the Department of
20 Commerce for the Center for Community Self-Help two percent (2%)
21 of any unreserved credit balance remaining in the General Fund at
22 the end of each fiscal year or ten million dollars (\$10,000,000),
23 whichever is greater. The funds distributed to the Center for

1 Community Self-Help shall be used as provided in G.S. 143B-
2 437.06."

3 Section 2. Part 2 of Article 10 of Chapter 143B of the
4 General Statutes is amended by adding a new section to read:

5 "§ 143B-437.06. Community Self-Help Home Ownership Program.

6 (a) Funds. -- The Department of Commerce shall remit to the
7 Center for Community Self-Help the funds reserved under G.S. 143-
8 15.3D(b). The Department of Commerce shall disburse the funds
9 within 15 working days after the receipt of a request for the
10 funds from the Center for Community Self-Help. The request shall
11 include a commitment of the leveraged funds by the Center or its
12 affiliates.

13 (b) Loan Program. -- The funds remitted under this section
14 shall be used to further a statewide program of lending for
15 owner-occupied home ownership throughout North Carolina. These
16 funds shall be leveraged on a ten-to-one basis, generating at
17 least ten dollars (\$10.00) of nontraditional home loans for every
18 one dollar (\$1.00) of State funds. Repayments shall be available
19 for further loans or guarantees.

20 (c) Audits. -- The Center for Community Self-Help shall submit
21 within 180 days after the close of its fiscal year, audited
22 financial statements to the State Auditor. All records
23 pertaining to the use of State funds shall be made available to
24 the State Auditor upon request. The Office of the State Auditor
25 may conduct an annual end-of-year audit of the revolving fund for
26 home ownership lending created by this section each year of the
27 life of the revolving fund.

28 (d) Reports. -- The Center for Community Self-Help shall make
29 quarterly reports on the use of State funds to the State Auditor,
30 in form and format prescribed by the State Auditor. The Center
31 for Community Self-Help shall make a written report by May 1 of
32 each year of the life of the revolving fund to the General
33 Assembly on the use of the funds allocated under this section.
34 The Center for Community Self-Help shall also report to the Joint
35 Legislative Commission on Governmental Operations, the House
36 Appropriations Subcommittee on Natural and Economic Resources,
37 the Senate Appropriations Subcommittee on Natural and Economic
38 Resources, and the Department of Commerce on a quarterly basis
39 for each year of the life of the revolving fund.

40 (e) Dissolution. -- If the Center for Community Self-Help
41 dissolves, the corporation shall transfer the remaining assets of
42 the revolving fund to the State and shall refrain from disposing
43 of the revolving fund assets without approval of the State
44 Treasurer."

1 Section 3. G.S. 143-15.2 reads as rewritten:

2 "§ 143-15.2. Use of General Fund credit balance; priority uses.

3 (a) As used in G.S. 143-15.3, 143-15.3A, and 143-15.3B, and
4 143-15.3D, the term "unreserved credit balance" means the credit
5 balance amount, as determined on a cash basis, before funds are
6 reserved by the State Controller to the Savings Reserve Account,
7 the Repairs and Renovations Reserve Account, ~~or~~ the Clean Water
8 Management Trust ~~Fund~~ Fund, the Housing Trust Fund, or the
9 Department of Commerce for the Center for Community Self-Help
10 pursuant to G.S. 143-15.3, 143-15.3A, and ~~143-15.3B~~ 143-15.3B,
11 and 143-15.3D.

12 (b) The State Controller shall transfer funds from the
13 unreserved credit balance to the Savings Reserve Account in
14 accordance with G.S. 143-15.3(a).

15 (c) The State Controller shall transfer funds from the
16 unreserved credit balance to the Repairs and Renovation Reserve
17 Account in accordance with G.S. 143-15.3A(a).

18 (d) The State Controller shall transfer funds from the
19 unreserved credit balance to the Clean Water Management Trust
20 Fund in accordance with G.S. 143-15.3B(a).

21 (d1) The State Controller shall transfer funds from the
22 unreserved credit balance to the Housing Trust Fund in accordance
23 with G.S. 143-15.3D(a), and to the Department of Commerce for the
24 Center for Community Self-Help in accordance with G.S. 143-
25 15.3D(b).

26 (e) The General Assembly may appropriate that part of the
27 anticipated General Fund credit balance not expected to be
28 reserved only for capital improvements or other one-time
29 expenditures."

30 Section 4. G.S. 143-15.3 reads as rewritten:

31 "§ 143-15.3. Savings Reserve Account.

32 (a) There is established a Savings Reserve Account as a
33 restricted reserve in the General Fund. The State Controller
34 shall reserve to the Savings Reserve Account one-fourth of any
35 unreserved credit balance remaining in the General Fund at the
36 end of each fiscal year until the account contains funds equal to
37 five percent (5%) of the amount appropriated the preceding year
38 for the General Fund operating budget, including local government
39 tax-sharing funds, that were directly appropriated. In the event
40 that the one-fourth exceeds the amount necessary to reach the
41 five percent (5%) level, only funds necessary to reach that level
42 shall be reserved. If there are insufficient funds in the
43 unreserved credit balance for the Savings Reserve Account, the
44 Repairs and Renovations Reserve Account, and the Clean Water

1 Management Trust Fund, the Housing Trust Fund, and the Department
2 of Commerce for the Center for Community Self-Help, then the
3 requirements of this section shall be complied with first, and
4 any remaining funds shall be reserved to the Repairs and
5 Renovations Reserve Account, in accordance with G.S. 143-15.3A,
6 ~~and~~ the Clean Water Management Trust Fund, in accordance with
7 ~~G.S. 143-15.3B.~~ 143-15.3B, the Housing Trust Fund, in accordance
8 with G.S. 143-15.3D(a), and the Department of Commerce for the
9 Center for Community Self-Help, in accordance with G.S. 143-
10 15.3D(b).

11 (a) If the balance in the Savings Reserve Account falls below
12 the five percent (5%) level during a fiscal year, the State
13 Controller shall, in accordance with subsection (a) of this
14 section, reserve to the Savings Reserve Account for the following
15 fiscal years up to one-fourth of any unreserved credit balance
16 remaining in the General Fund at the end of each fiscal year
17 until the account again equals the five percent (5%) level set
18 out in subsection (a) of this section.

19 (b) The Director may not use funds in the Savings Reserve
20 Account unless the use has been approved by an act of the General
21 Assembly."

22 Section 5. This act becomes effective June 30, 1998.

EXPLANATION OF LEGISLATIVE PROPOSAL #1 FUNDS FOR LOW INCOME HOUSING

In fiscal year 1997-98, \$5 million from the General Fund was appropriated to the North Carolina Housing Trust Fund. The nonprofit Center for Community Self-Help also received an appropriation of \$5 million. Both organizations indicated that much more is needed each year to fully meet the housing needs in the State.

The proposal earmarks the following portions of the unreserved credit balance for the Housing Trust Fund and the Center for Community Self-Help:

- Four percent of any unreserved credit balance remaining in the General Fund at the end of each fiscal year or \$20 million, whichever is greater, to Housing Trust Fund.
- Two percent of any unreserved credit balance remaining in the General Fund at the end of each fiscal year or \$10 million, whichever is greater, to the Department of Commerce for the Center for Community Self-Help.

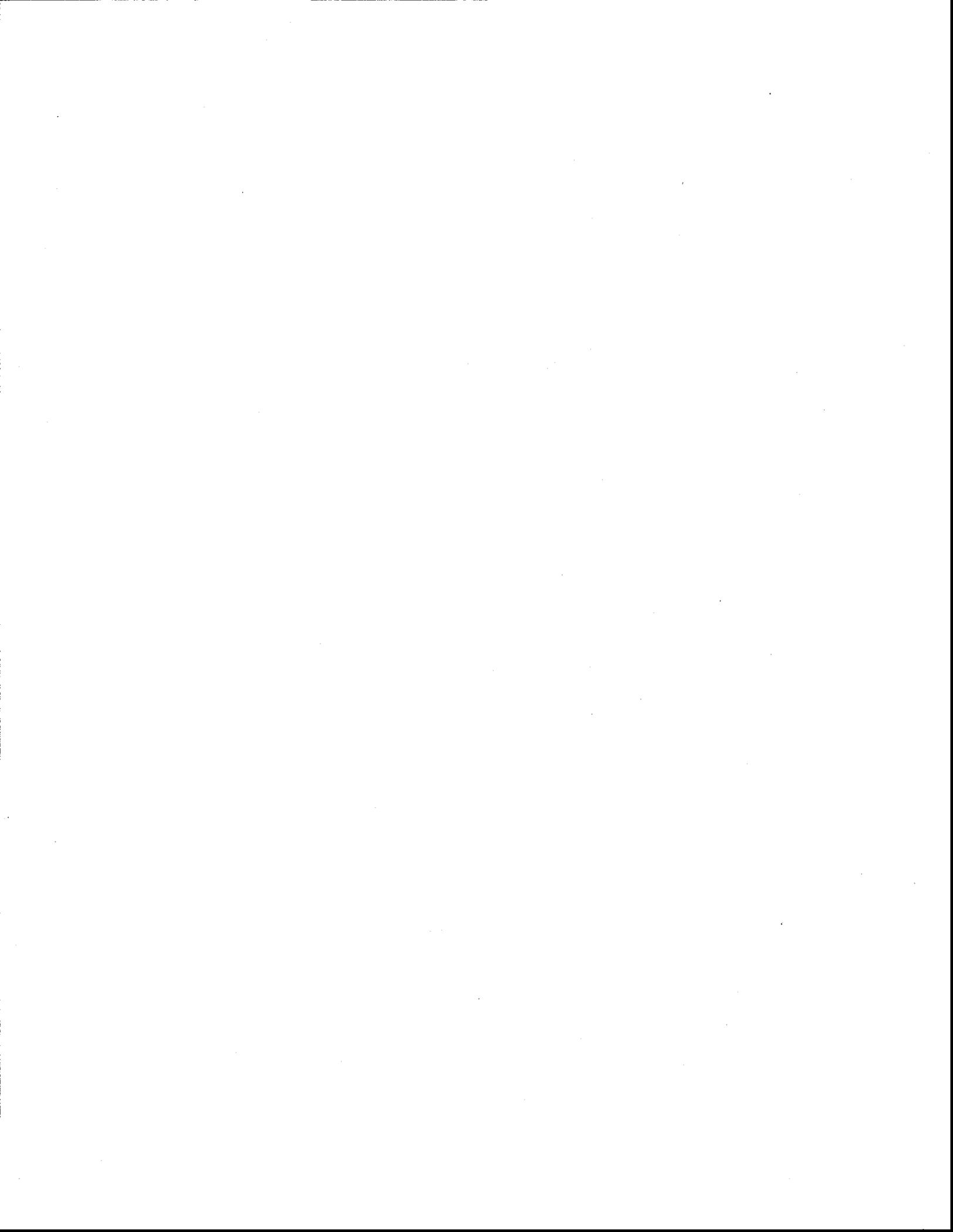
The money going to the Housing Trust Fund will be used in accordance with the Chapter that establishes the Housing Trust Fund.

The proposal creates a new section under Part 2 (Economic Development) of Article 10 (Department of Commerce) in Chapter 143B (Executive Organization Act of 1973). This section lists the required uses of the funds going to the Center for Community Self-Help and the auditing and reporting requirements of the uses of these funds. The funds are to be used by the Center to further a statewide program of lending for owner-occupied home ownership.

The proposal adds the Housing Trust Fund and the Department of Commerce to the list of entities receiving an amount of the unreserved credit balance and sets out the order of priority for receiving these funds. Under current law, a portion of the unreserved credit balance is earmarked in the following order of priority:

1. Savings Reserve Account in the amount of one-fourth of any unreserved credit balance remaining in the General Fund at the end of each fiscal year until the account contains funds equal to 5% of the amount appropriated the preceding year for the General Fund operating budget, including local government tax-sharing funds, that were directly appropriated.
2. Repairs and Renovation Reserve Account in the amount of 3% of the replacement value of all State buildings supported from the General Fund, at the end of each fiscal year.
3. Clean Water Management Trust fund in the amount of 6.5% of any unreserved credit balance remaining in the General Fund at the end of each fiscal year or \$30 million, whichever is greater.

The proposal adds the Housing Trust Fund and the Department of Commerce to the priority list.



Earmarking of the Unreserved Credit Balance by Fiscal Year

Fiscal Year	June 30 Unreserved Credit Balance	Savings Reserve Earmarking	Repairs/ Renovations (Replacement Value)	Repairs/ Renovations Supplement	Clean Water Management Trust Fund	Tax Relief/ Tax Refunds	Other Earmarking	Total Earmarking	Remaining Credit Balance
1991-92	164,773,001	41,193,253	0	0	0	0	0	41,193,253	123,579,748
1992-93	537,330,259	134,332,565	57,000,000	0	0	0	0	191,332,565	345,997,694
1993-94	622,712,983	155,678,246	60,000,000	0	0	0	0	215,678,246	407,034,737
1994-95	680,022,275	146,305,569	146,305,569 A	0	0	28,100,000 B	66,700,000 **	387,411,138	292,611,137
1995-96	726,581,754	77,342,026	130,000,000	0	47,100,000	26,200,000 C	39,803,567 D	320,445,593	406,136,161
1996-97	759,306,050	0	135,000,000	39,260,955	49,354,893	156,000,000 E	61,000,000 F	440,615,848	318,690,202

A: Only \$125,000,000 was appropriated by the General Assembly for Repairs/Renovations; the balance of \$21,305,569 was appropriated by the 1996 Session of the General Assembly for Special Projects.

B: Reserve for Future Tax Relief

** Direct Transfer to the Savings Reserve Account

C: Reserve for Federal Retirees Refund (\$25 million) and Federal Retiree Administration (\$1.2 million)

D: Appropriation of additional 1996-97 Capital Improvements of \$39,519,567 made by re-appropriating 1995-96 unexpended appropriations and the appropriation of 1995-96 reversion of \$284,000 for library grants

E: Reserve for Intangible Tax Remedy/Refunds

F: Investment in NC Railroad stock

\$700 million is estimated to be in the Unreserved Credit Balance for fiscal year ending June 30, 1998. Under Proposal One, 4% of this amount (\$28 million) would be earmarked to the Housing Trust Fund and 2% (\$14 million) would be earmarked for the Center for Community Self-Help.



GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1997

S/H

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LEGISLATIVE PROPOSAL 2

98-RBZ-20

THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION

13:30:541-MAY-98

Short Title: Funding for Legal Services.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO DEDICATE A PORTION OF COURT COSTS TO PROVIDE ACCESS TO
3 CIVIL JUSTICE.
4 The General Assembly of North Carolina enacts:
5 Section 1. G.S. 7A-304(a)(4) reads as rewritten:
6 "(4) For support of the General Court of Justice, the
7 sum of sixty-one dollars (\$61.00) in the district
8 court, including cases before a magistrate, and the
9 sum of sixty-eight dollars (\$68.00) in the superior
10 court, to be remitted to the State Treasurer. The
11 State Treasurer shall remit a portion of each fee
12 collected under this subdivision, in an amount
13 equal to that specified in the table below, to the
14 North Carolina State Bar for the provision of
15 services described in G.S. 7A-474.4:

<u>Fiscal year</u>	<u>Amount</u>
16 1998-99	\$4.00
17 1999-00	6.00
18 2000-01	7.00
19 2001-02	8.00
20 2002-03	9.00
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2003-04 and after 10.00."

Section 2. G.S. 7A-305(a)(2) reads as rewritten:

"(2) For support of the General Court of Justice, the sum of fifty-five dollars (\$55.00) in the superior court, and the sum of forty dollars (\$40.00) in the district court except that if the case is assigned to a magistrate the sum shall be twenty-eight dollars (\$28.00). Sums collected under this ~~subsection~~ subdivision shall be remitted to the State Treasurer. The State Treasurer shall remit a portion of each fee collected under this subdivision, in an amount equal to that specified in the table below, to the North Carolina State Bar for the provision of services described in G.S. 7A-474.4:

<u>Fiscal year</u>	<u>Amount</u>
<u>1998-99</u>	<u>\$4.00</u>
<u>1999-00</u>	<u>6.00</u>
<u>2000-01</u>	<u>7.00</u>
<u>2001-02</u>	<u>8.00</u>
<u>2002-03</u>	<u>9.00</u>
<u>2003-04 and after</u>	<u>10.00."</u>

Section 3. G.S. 7A-306(a)(2) reads as rewritten:

"(2) For support of the General Court of Justice the sum of twenty-six dollars (\$26.00). In addition, in proceedings involving land, except boundary disputes, if the fair market value of the land involved is over one hundred dollars (\$100.00), there shall be an additional sum of thirty cents (30¢) per one hundred dollars (\$100.00) of value, or major fraction thereof, not to exceed a maximum additional sum of two hundred dollars (\$200.00). Fair market value is determined by the sale price if there is a sale, the appraiser's valuation if there is no sale, or the appraised value from the property tax records if there is neither a sale nor an appraiser's valuation. Sums collected under this ~~subsection~~ subdivision shall be remitted to the State Treasurer. The State Treasurer shall remit a portion of each fee collected under this subdivision, in an amount equal to that specified in the table below, to the North Carolina State Bar for the provision of services described in G.S. 7A-474.4:

1		<u>Fiscal year</u>	<u>Amount</u>
2		<u>1998-99</u>	<u>\$4.00</u>
3		<u>1999-00</u>	<u>6.00</u>
4		<u>2000-01</u>	<u>7.00</u>
5		<u>2001-02</u>	<u>8.00</u>
6		<u>2002-03</u>	<u>9.00</u>
7		<u>2003-04 and after</u>	<u>10.00."</u>
8	Section 4. G.S. 7A-307(a)(2) reads as rewritten:		
9	"(2) For support of the General Court of Justice, the		
10	sum of twenty-six dollars (\$26.00), plus an		
11	additional forty cents (40¢) per one hundred		
12	dollars (\$100.00), or major fraction thereof, of		
13	the gross estate, not to exceed three thousand		
14	dollars (\$3,000). Gross estate shall include the		
15	fair market value of all personalty when received,		
16	and all proceeds from the sale of realty coming		
17	into the hands of the fiduciary, but shall not		
18	include the value of realty. In collections of		
19	personal property by affidavit, the fee based on		
20	the gross estate shall be computed from the		
21	information in the final affidavit of collection		
22	made pursuant to G.S. 28A-25-3 and shall be paid		
23	when that affidavit is filed. In all other cases,		
24	this fee shall be computed from the information		
25	reported in the inventory and shall be paid when		
26	the inventory is filed with the clerk. If		
27	additional gross estate, including income, comes		
28	into the hands of the fiduciary after the filing of		
29	the inventory, the fee for such additional value		
30	shall be assessed and paid upon the filing of any		
31	account or report disclosing such additional value.		
32	For each filing the minimum fee shall be ten		
33	dollars (\$10.00). Sums collected under this		
34	subsection <u>subdivision</u> shall be remitted to the		
35	State Treasurer. <u>The State Treasurer shall remit a</u>		
36	<u>portion of each fee collected under this</u>		
37	<u>subdivision, in an amount equal to that specified</u>		
38	<u>in the table below, to the North Carolina State Bar</u>		
39	<u>for the provision of services described in G.S. 7A-</u>		
40	<u>474.4:</u>		
41		<u>Fiscal year</u>	<u>Amount</u>
42		<u>1998-99</u>	<u>\$4.00</u>
43		<u>1999-00</u>	<u>6.00</u>
44		<u>2000-01</u>	<u>7.00</u>

1	<u>2001-02</u>	<u>8.00</u>
2	<u>2002-03</u>	<u>9.00</u>
3	<u>2003-04 and after</u>	<u>10.00."</u>
4	Section 5. This act becomes effective July 1, 1998, and	
5	applies to fees paid on or after that date.	

EXPLANATION OF LEGISLATIVE PROPOSAL #2 FUNDING FOR LEGAL SERVICES

Legislative Proposal #2, Funding for Legal Services of North Carolina, dedicates a portion of the court costs to Legal Services of North Carolina, Inc. The amount of court costs earmarked for this purpose in 1998-99 is \$4.00. This amount increases over six years until, by the fiscal year 2003-04, the amount of money earmarked from the court costs for Legal Services is \$10.00. The proposal does not increase the court costs. Instead, it redirects a portion of the court costs currently credited to the General Fund to the NC State Bar to be used for legal services programs. It is anticipated that this dedicated stream of revenue, when fully phased in, will generate between \$14 and \$15 million. The North Carolina Commission on the Delivery of Civil Legal Services to the Poor determined that it would take at least \$14 million in State funds to meet the most minimal needs of the poor.

Legal Services of North Carolina, Inc. is a not-for-profit corporation established in 1974 by the North Carolina Bar Association to provide free legal services to the poor in civil matters, including family, housing, income maintenance, consumer, and employment law. More than 30% of the cases handled by Legal Services is in the area of family law, and most of those involve domestic violence. LSNC is governed by a Board of Directors, the majority of whom are appointed by the North Carolina Bar Association. It has 12 geographically based legal service programs located throughout the State serving 83 counties. It works with 3 other geographically based legal services programs which serve the remaining 17 counties.

The Legal Services Corporation is the national corporation established by Congress for the purpose of administering federal funds appropriations by Congress to provide legal assistance to poor people in civil cases. In 1976, the Legal Services Corporation board, appointed by President Ford, determined that to achieve minimum access to justice for poor people, there would need to be one legal services attorney for every 5,000 eligible clients. By federal guidelines, persons with an income lower than 125% of the federal poverty level are eligible for legal services. In North Carolina, there is only one legal services attorney for every 15,000 eligible clients. For the rest of the population in North Carolina, there is one attorney for every 450 people.

Currently, LSNC receives total funds in the amount of \$9,809,000. Of this funding, it received 57% from the Legal Services Corporation, 13% from General Fund appropriations, 12% from the Interest on Lawyers' Trust Accounts (IOLTA), and the remainder from local funding sources and grants. LSNC has never had sufficient funding to provide for the legal needs of the state's eligible

clients. Also, its funding sources are very insecure. Federal funding through the Legal Services Corporation has declined steadily and dramatically since 1981 and the General Fund appropriations have varied over the years. The IOLTA funds are tied to interest rates and are less now in absolute terms than they were in 1992 or 1993. Not only are the IOLTA funds unstable because of changing interest rates, they may also be extinguished altogether. The IOLTA programs, which are in effect in all 50 states, have been challenged in a law suit as being illegal taking of property. The United States Supreme Court is expected to rule on the case of the IOLTA program this summer.

The NC State Bar and NC Bar Association convened the NC Commission on the Delivery of Civil Legal Services to the Poor to study the issue of resource development for LSNC. The Commission unanimously concluded that dedicating a portion of court costs is the best approach to achieve increased and stable funding for legal services programs. Approximately 20 other states dedicate a portion of their court costs for legal services programs and have found that it generates significant and stable revenue. In addition, other states have found that people who pay court costs benefit from having a portion of it earmarked for legal services because unrepresented indigent litigants create inefficiencies in the judicial system.

The Commission determined that the dedication of \$10 of the court costs in each civil and criminal case would be required to reach the funding level of \$14 million in state funds. This proposal dedicates \$10 of the court costs to legal services programs by phasing it in over six years. The proposal does not increase court costs. Instead, it redirects the revenue currently generated by court costs from the General Fund to legal services programs.

FISCAL ANALYSIS MEMORANDUM

TO: Senator Frank Ballance Jr.
 Representative Cary Allred
 Cochairs, LRC Committee on Dedicated Sources of Revenue

FROM: Charles Perusse
 Fiscal Research Division

RE: Fiscal Impact of Funding for Legal Services (Legislative Proposal #2)

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
<u>Decrease in Revenues to General Fund Availability</u>	\$6,004,964	\$9,007,446	\$10,508,687	\$12,009,928	\$13,511,169
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Judicial Department; General Fund Availability					
EFFECTIVE DATE: July 1, 1998					

SUMMARY OF PROPOSAL: Legislative Proposal #2, Funding for Legal Services, dedicates a portion of the court costs to Legal Services of North Carolina, Inc. The amount of court costs earmarked for this purpose in FY 1998-99 is \$4.00. This amount increases over six years until, by the end of FY 2003-04, the amount of money earmarked is \$10.00.

ASSUMPTIONS AND METHODOLOGY:

The Judicial Department estimates each dollar of court fees collected and included in this legislation generate approximately \$1,501,241 to General Fund availability. Therefore, the estimated decrease in revenues to the General Fund can be determined by multiplying \$1,501,241 times the court cost amounts earmarked for legal services programs in the specific fiscal year. This equates to a net reduction in general fund availability totaling:

Fiscal Year 1998-99 = \$6,004,964 (\$1,501,241 X \$4)

Fiscal Year 1999-00 = \$9,007,446 (\$1,501,241 X \$6)

Fiscal Year 2000-01 = \$10,508,687 (\$1,501,241 X \$7)

Fiscal Year 2001-02 = \$12,009,928 (\$1,501,241 X \$8)

Fiscal Year 2002-03 = \$13,511,169 (\$1,501,241 X \$9)

Fiscal Year 2003-04 = \$15,012,410 (\$1,501,241 X \$10)

TECHNICAL CONSIDERATIONS: None

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1997

S/H

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LEGISLATIVE PROPOSAL 3

98-LL-172(3.26)(Z)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)

Short Title: Firefighters' Benefits.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO DEFINE A PROFESSIONAL FIREFIGHTERS' BENEFITS ACCRUAL
3 RATE FOR MEMBERS AND BENEFICIARIES OF THE LOCAL GOVERNMENTAL
4 EMPLOYEES' RETIREMENT SYSTEM.
5 The General Assembly of North Carolina enacts:
6 Section 1. G.S. 128-21 is amended by adding a new
7 subdivision to read:
8 "(17a) 'Professional firefighter' means a person (i)
9 who is a full-time paid employee of an
10 employer maintaining a fire department
11 certified by the North Carolina Department of
12 Insurance, and (ii) who is actively serving in
13 a position with assigned primary duties and
14 responsibilities for the prevention,
15 detection, and suppression of fire."
16 Section 2. G.S. 128-24(5) reads as rewritten:
17 "(5) The provisions of this subdivision (5) shall apply
18 to any member whose membership is terminated on or
19 after July 1, 1965, and who becomes entitled to
20 benefits hereunder in accordance with the
21 provisions hereof.
22 a. Notwithstanding any other provision of this
23 Chapter, any member who separates from service
24 prior to the attainment of the age of 60 years

1 for any reason other than death or retirement
2 for disability as provided in G.S. 128-27(c),
3 after completing 15 or more years of
4 creditable service, and who leaves his total
5 accumulated contributions in said System shall
6 have the right to retire on a deferred
7 retirement allowance upon attaining the age of
8 60 years; provided that such member may retire
9 only upon written application to the Board of
10 Trustees setting forth at what time, not less
11 than one day nor more than 90 days subsequent
12 to the execution and filing thereof, he
13 desires to be retired; and further provided
14 that in the case of a member who so separates
15 from service on or after July 1, 1967, the
16 aforestated requirement of 15 or more years of
17 creditable service shall be reduced to 12 or
18 more years of creditable service; and further
19 provided that in the case of a member who so
20 separates from service on or after July 1,
21 1971, or whose account is active on July 1,
22 1971, the aforestated requirement of 12 or
23 more years of creditable service shall be
24 reduced to five or more years of creditable
25 service. Such deferred retirement allowance
26 shall be computed in accordance with the
27 service retirement provisions of this Article
28 pertaining to a member who is not a law
29 enforcement officer or eligible former law
30 enforcement officer.

- 31 b. In lieu of the benefits provided in paragraph
32 a of this subdivision, any member who
33 separates from service prior to the attainment
34 of the age of 60 years, for any reason other
35 than death or retirement for disability as
36 provided in G.S. 128-27(c), after completing
37 20 or more years of creditable service, and
38 who leaves his total accumulated contributions
39 in said System may elect to retire on an early
40 retirement allowance upon attaining the age of
41 50 years or at any time thereafter; provided
42 that such member may so retire only upon
43 written application to the Board of Trustees
44 setting forth at what time, not less than one

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day nor more than 90 days subsequent to the execution and filing thereof, he desires to be retired. Such early retirement allowance so elected shall be equal to the deferred retirement allowance otherwise payable at the attainment of the age of 60 years reduced by the percentage thereof indicated below.

Age at Retirement	Percentage Reduction
59	7
58	14
57	20
56	25
55	30
54	35
53	39
52	43
51	46
50	50

b1. In lieu of the benefits provided in paragraphs a and b of this subdivision, any member who is a law enforcement officer or a professional firefighter at the time of separation from service prior to the attainment of the age of 50 years, for any reason other than death or disability as provided in this Article, after completing 15 or more years of creditable service in this capacity immediately prior to separation from service, and who leaves his total accumulated contributions in this System, may elect to retire on a deferred early retirement allowance upon attaining the age of 50 years or at any time thereafter; provided, that the member may commence retirement only upon written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month, not less than one day nor more than 90 days subsequent to the execution and filing thereof, he desires to commence retirement. The deferred early retirement allowance shall be computed in accordance with the service retirement provisions of this Article

- 1 pertaining to law enforcement ~~officers-~~
2 officers or professional firefighters.
- 3 b2. In lieu of the benefits provided in paragraphs
4 a and b of this subdivision, any member who is
5 a law enforcement officer or professional
6 firefighter at the time of separation from
7 service prior to the attainment of the age of
8 55 years, for any reason other than death or
9 disability as provided in this Article, after
10 completing five or more years of creditable
11 service in this capacity immediately prior to
12 separation from service, and who leaves his
13 total accumulated contributions in this System
14 may elect to retire on a deferred service
15 retirement allowance upon attaining the age of
16 55 years or at any time thereafter; provided,
17 that the member may commence retirement only
18 upon written application to the Board of
19 Trustees setting forth at what time, as of the
20 first day of a calendar month not less than
21 one day nor more than 90 days subsequent to
22 the execution and filing thereof, he desires
23 to commence retirement. The deferred service
24 retirement allowance shall be computed in
25 accordance with the service retirement
26 provisions of this Article pertaining to law
27 enforcement ~~officers-~~ officers or professional
28 firefighters.
- 29 b3. Deferred retirement allowance of members
30 retiring on or after July 1, 1995. -- In lieu
31 of the benefits provided in paragraphs a. and
32 b. of this subdivision, any member who
33 separates from service prior to attainment of
34 age 60 years, after completing 20 or more
35 years of creditable service, and who leaves
36 his total accumulated contributions in said
37 System, may elect to retire on a deferred
38 retirement allowance upon attaining the age of
39 50 years or any time thereafter; provided that
40 such member may so retire only upon written
41 application to the Board of Trustees setting
42 forth at what time, not less than one day nor
43 more than 90 days subsequent to the execution
44 and filing thereof, he desires to be retired.

- 1 Such deferred retirement allowance shall be
2 computed in accordance with the service
3 retirement provisions of this Article
4 pertaining to a member who is not a law
5 enforcement officer or an eligible former law
6 enforcement officer.
- 7 c. Should a beneficiary who retired on an early
8 or service retirement allowance be reemployed,
9 or otherwise engaged to perform services, by
10 an employer participating in the Retirement
11 System on a part-time, temporary, interim, or
12 on fee-for-service basis, whether contractual
13 or otherwise, and if such beneficiary earns an
14 amount in any calendar year which exceeds
15 fifty percent (50%) of the reported
16 compensation, excluding terminal payments,
17 during the 12 months of service preceding the
18 effective date of retirement, or twenty
19 thousand dollars (\$20,000), whichever is
20 greater, as hereinafter indexed, then the
21 retirement allowance shall be suspended as of
22 the first day of the month following the month
23 in which the reemployment earnings exceed the
24 amount above, for the balance of the calendar
25 year. The retirement allowance of the
26 beneficiary shall be reinstated as of January
27 1 of each year following suspension. The
28 amount that may be earned before suspension
29 shall be increased on January 1 of each year
30 by the ratio of the Consumer Price Index to
31 the Index one year earlier, calculated to the
32 nearest tenth of a percent (1/10 of 1%).
- 33 d. Should a beneficiary who retired on an early
34 or service retirement allowance be restored to
35 service as an employee, then the retirement
36 allowance shall cease as of the first day of
37 the month following the month in which the
38 beneficiary is restored to service and the
39 beneficiary shall become a member of the
40 Retirement System and shall contribute
41 thereafter as allowed by law at the uniform
42 contribution payable by all members.

1 Upon his subsequent retirement, he shall
2 be paid a retirement allowance determined as
3 follows:

- 4 1. For a member who earns at least three
5 years' membership service after
6 restoration to service, the retirement
7 allowance shall be computed on the basis
8 of his compensation and service before
9 and after the period of prior retirement
10 without restriction; provided, that if
11 the prior allowance was based on a social
12 security leveling payment option, the
13 allowance shall be adjusted actuarially
14 for the difference between the amount
15 received under the optional payment and
16 what would have been paid if the
17 retirement allowance had been paid
18 without optional modification.
- 19 2. For a member who does not earn three
20 years' membership service after
21 restoration to service, the retirement
22 allowance shall be equal to the sum of
23 the retirement allowance to which he
24 would have been entitled had he not been
25 restored to service, without modification
26 of the election of an optional allowance
27 previously made, and the retirement
28 allowance that results from service
29 earned since being restored to service;
30 provided, that if the prior retirement
31 allowance was based on a social security
32 leveling payment option, the prior
33 allowance shall be adjusted actuarially
34 for the difference between the amount
35 that would have been paid for each month
36 had the payment not been suspended and
37 what would have been paid if the
38 retirement allowance had been paid
39 without optional modification."

40 Section 3. G.S. 128-27(a) reads as rewritten:

41 "(a) Service Retirement Benefits. --

- 42 (1) Any member may retire upon written application to
43 the Board of Trustees setting forth at what time,
44 as of the first day of a calendar month, not less

1 than one day nor more than 90 days subsequent to
2 the execution and filing thereof, he desires to be
3 retired: Provided, that the said member at the time
4 so specified for his retirement shall have attained
5 the age of 60 years and have at least five years of
6 creditable service or shall have completed 30 years
7 of creditable service, or if a ~~fireman,~~ he
8 professional firefighter, the member shall have
9 attained the age of 55 50 years and have at least
10 five twenty-seven years of creditable service-
11 service, provided that the last five years of
12 creditable service is as a professional
13 firefighter.

14 (2) Repealed by Session Laws 1983 (Regular Session Laws
15 1984), c. 1019, s. 1.

16 (3) Repealed by Session Laws 1971, c. 325, s. 12.

17 (4) Any member who was in service October 8, 1981, who
18 had attained 60 years of age, may retire upon
19 written application to the Board of Trustees
20 setting forth at what time, as of the first day of
21 a calendar month, not less than one day nor more
22 than 90 days subsequent to the execution and filing
23 thereof, he desires to be retired.

24 (5) Any member who is a law enforcement ~~officer,~~
25 officer or professional firefighter, and who
26 attains age 50 and completes 15 or more years of
27 creditable service in this capacity or who attains
28 age 55 and completes five or more years of
29 creditable service in this capacity, may retire
30 upon written application to the Board of Trustees
31 setting forth at what time, as of the first day of
32 a calendar month, not less than one day nor more
33 than 90 days subsequent to the execution and filing
34 thereof, ~~he~~ the member desires to be retired;
35 provided, also, any member who has met the
36 conditions required by this ~~subdivision~~ section but
37 does not retire, and later becomes an employee
38 other than as a law enforcement ~~officer,~~ officer or
39 professional firefighter, continues to have the
40 right to commence retirement."

41 Section 4. G.S. 128-27 reads as rewritten:

42 "(b17) Service Retirement Allowance of Professional
43 Firefighters Retiring on or after July 1, 1998. -- Upon
44 retirement from service in accordance with subsection (a) or (a1)

1 above, on or after July 1, 1998, a member who is a professional
2 firefighter or an eligible former professional firefighter shall
3 receive the following service retirement allowance:

4 (1) If the member's service retirement date occurs on
5 or after his 55th birthday, and completion of five
6 years of creditable service as a professional
7 firefighter, or after his 50th birthday, and the
8 completion of 27 years of creditable service, the
9 allowance shall be equal to the sum of:

10 a. One and seventy-six hundredths percent (1.76%)
11 of the member's average final compensation,
12 multiplied by the number of years of
13 creditable service earned by the member in
14 service other than as a professional
15 firefighter and for service as a professional
16 firefighter earned prior to July 1, 1988, plus

17 b. Two and fifty hundredths percent (2.50%) of
18 the member's average final compensation,
19 multiplied by the number of years of
20 creditable service earned as a professional
21 firefighter on or after July 1, 1988.

22 (2) If the member's service retirement date occurs on
23 or after his 50th birthday and before his 55th
24 birthday with 15 or more years of creditable
25 service as a professional firefighter and prior to
26 the completion of 27 years of creditable service,
27 his retirement allowance shall be equal to the
28 greater of:

29 a. The service retirement allowance payable under
30 G.S. 128-27(b17)(1) reduced by one-third of
31 one percent (1/3 of 1%) thereof for each month
32 by which his retirement date precedes the
33 first day of the month coincident with or next
34 following the month the member would have
35 attained his 55th birthday; or

36 b. The service retirement allowance as computed
37 under G.S. 128-27(b17)(1) reduced by five
38 percent (5%) times the difference between 27
39 years and his creditable service at
40 retirement."

41 Section 5. G.S. 128-30(d) is amended by adding a new
42 subdivision to read:

43 "(10) Notwithstanding the foregoing provisions of
44 this subsection, beginning with the December

1 31, 1997, valuation, the actuary shall
2 determine an additional 'accrued liability
3 contribution' on account of each employer's
4 professional firefighters. This contribution
5 shall be that percentage of the professional
6 firefighters' compensation necessary to
7 liquidate the 'existing unfunded accrued
8 liability' over a period of years to be
9 determined by the Board of Trustees. The
10 'existing unfunded accrued liability' for each
11 employer shall be equal to the accrued
12 liability for additional benefits payable to
13 each employer's professional firefighters who
14 are members of the Retirement System on June
15 30, 1998. The 'accrued liability
16 contribution' determined on the basis of this
17 subdivision shall be added to that determined
18 under subdivisions (3) and (9) of this
19 subsection and shall be included in the total
20 amount payable under subdivision (5) of this
21 subsection."

22 Section 6. Nothing in this act shall diminish any
23 rights that a member of the Local Governmental Employees'
24 Retirement System possessed before the effective date of this act
25 to retire prior to age 50 with 30 years of creditable service;
26 however, the benefit accrual rate will be same as that applied to
27 other members who are not law enforcement officers or
28 professional firefighters.

29 Section 7. G.S. 105-228.5(d) reads as rewritten:

30 "(d) Tax Rates; Disposition. --

31 (1) Workers Compensation. -- The tax rate to be applied
32 to gross premiums, or the equivalent thereof in the
33 case of self-insurers, collected on contracts
34 applicable to liabilities under the Workers'
35 Compensation Act shall be two and five-tenths
36 percent (2.5%). The net proceeds shall be credited
37 to the General Fund.

38 (2) Other Insurance Contracts. -- The tax rate to be
39 applied to gross premiums collected on all other
40 insurance contracts issued by insurers shall be one
41 and nine-tenths percent (1.9%). The net proceeds
42 shall be credited to the General Fund.

43 (3) Additional Statewide Fire and Lightning Rate. -- An
44 additional tax shall be applied to amounts

1 collected on contracts of insurance applicable to
2 fire and lightning coverage, except in the case of
3 marine and automobile policies, at the rate of ~~one~~
4 ~~and thirty-three hundredths percent (1.33%).~~
5 Twenty-five percent (25%) four and seventeen
6 hundredths percent (4.17%). Eight percent (8%) of
7 the net proceeds of this additional tax shall be
8 deposited in the Volunteer Fire Department Fund
9 established in Article 87 of Chapter 58 of the
10 General Statutes. The remaining net proceeds shall
11 be credited to the General Fund.

12 (4) Additional Local Fire and Lightning Rate. -- An
13 additional tax shall be applied to amounts
14 collected on contracts of insurance applicable to
15 fire and lightning coverage within fire districts
16 at the rate of one-half of one percent (1/2 of 1%).
17 The net proceeds shall be credited to the
18 Department of Insurance for disbursement pursuant
19 to G.S. 58-84-25.

20 (5) Article 65 Corporations. -- The tax rate to be
21 applied to gross premiums and/or gross collections
22 from membership dues, exclusive of receipts from
23 cost plus plans, received by Article 65
24 corporations shall be one-half of one percent (1/2
25 of 1%). The net proceeds shall be credited to the
26 General Fund."

27 Section 8. This act becomes effective July 1, 1998, and
28 applies to persons retiring on or after that date.

EXPLANATION OF LEGISLATIVE PROPOSAL #3 FIREFIGHTERS' BENEFITS

Currently professional firefighters are eligible to retire with unreduced benefits after:

- 30 years of creditable service regardless of age,
- age 60 with 25 years of creditable service, or
- age 65 with five years of creditable service.

A member can retire on reduced benefits beginning at age 50 with 20 years of creditable service.

The formula for the Local Governmental Employees' Retirement System is 1.76% times AFC (average of four highest consecutive years) times the years of service. A member can receive about 50% of salary after 30 years of service.

This proposed bill adds a definition for "professional firefighter" as a person who is a full-time paid employee of an employer maintaining a fire department certified by the North Carolina Department of Insurance, and who is actively serving in a position with assigned primary duties and responsibilities for the prevention, detection, and suppression of fire.

The proposed bill allows a professional firefighter to retire with unreduced benefits on or after:

- age 50 with 27 years of creditable service as a professional firefighter, or
- age 55 with 5 years of creditable service as a professional firefighter

A member can retire on reduced benefits beginning at age 50 with 15 years of creditable service as a professional firefighter.

The formula for professional firefighter would increase to 1.76% times AFC times the years of service prior to July 1, 1988 plus 2.5% times AFC times the years of service after July 1, 1988.

The proposed bill allows any professional firefighter who satisfies the conditions of any of the above options, but does not retire, and later becomes an employee other than a professional firefighter to continue to have the right to retire under this section. Also, the proposed bill does not diminish any rights that a member possessed before the effective date of this proposal such as the right to retire prior to age 50 with 30 years of creditable service. In such cases, the benefit formula for such members will be the same as applied to general employees of the Local Governmental Employees' Retirement System.

The proposed bill raises the additional premium tax on fire and lightning policies in G.S. 105-228.5(d)(3) from 1.33% to 4.17%. Under current law the majority of the proceeds generated by this premium tax are credited to the General Fund. The increased tax rate will increase the proceeds going to the General Fund.

The proposed bill is similar to Senate Bill 538 introduced by Senator Ballance during the 1997 Regular Session. The difference between Senate Bill 538 and this proposed bill is that Senate Bill 538 increased the formula to 2.5% for years after July 1, 1987 and would have allowed a professional firefighter to retire with 25 years of creditable service as a professional firefighter, while the proposed bill increases the formula to 2.5% for years after July 1, 1988 and requires

the firefighter to have reached age 50 and have at least 27 years of creditable service as a professional firefighter.

**BUCK
CONSULTANTS**

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 16, 1998

Mr. Jack Pruitt
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

Proposed Legislation Similar to Senate Bill 538 (1997)

Dear Mr. Pruitt:

We have received your letter of March 26 regarding proposed legislation which affects the Local Governmental Employees' Retirement System.

This legislation appears to create a definition for a "professional firefighter." The legislation further provides that members who are professional firefighters shall be entitled to (i) unreduced service retirement benefits after 27 years of creditable service, after age 50, provided that the five years of creditable service prior to retirement are as a professional firefighter and (ii) reduced early retirement benefits at age 50 with 15 years of creditable service as a professional firefighter, calculated by using a reduction of 1/3 of 1% for each month under age 55, *or* a reduction of 5% times the difference between 27 years and the members' creditable service at retirement, whichever produces the greater benefit. The legislation also appears to provide vested deferred retirement benefits (i) on an unreduced service basis for members attaining age 55 if the member had five years of creditable service as a professional firefighter, and (ii) on a reduced early service basis for a member attaining age 50 if the member had 15 years of creditable service as a professional firefighter.

This legislation further appears to provide retirement benefits for members retiring on and after July 1, 1998 equal to 1.76% of average final compensation multiplied by the number of years of creditable service other than as a professional firefighter and for service as a professional firefighter rendered prior to July 1, 1988 *plus* 2.50% of average final compensation multiplied by the number of years of creditable service as a professional firefighter since July 1, 1988.

Mr. Jack Pruitt
April 16, 1998
Page 2

The changes appear to provide professional firefighters with the same retirement structure as law enforcement officers with the added provisions for an unreduced service retirement allowance after 27 years of creditable service, after age 50 and an annual formula accrual rate of 2.50% for service as a professional firefighter since July 1, 1988.

We have determined that the employers' normal contribution rate for firemen members under this legislation would be 11.17% of covered payroll. The increase from the current employer normal rate of 4.80% would be 6.37%, which would require additional annual normal contributions in perpetuity of approximately \$8,436,000. The additional unfunded accrued liability created on account of this legislation is \$78,974,000, which would require additional accrued liability contributions of approximately \$7,244,000 based on 15 year amortization of the additional unfunded accrued liability. The combined annual additional normal and accrued liability contributions required by the employer is approximately \$15,680,000. The attached table shows the estimated annual cost of the additional benefits for employers with firemen and the increase in the accrued liability rate which would be applied to the payroll of all members of each employer.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



Edward A. Macdonald
Principal and Consulting Actuary.

EAM:jq

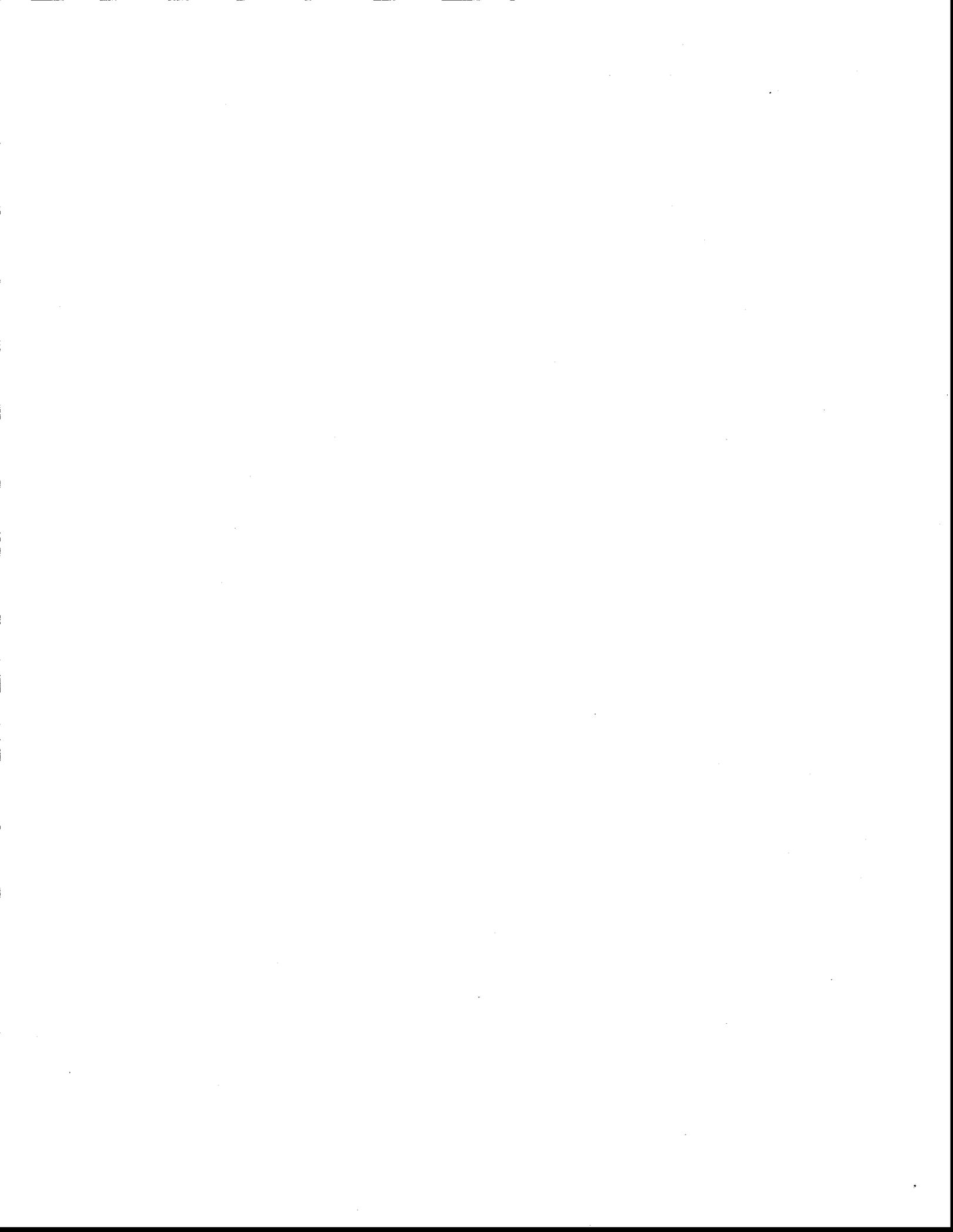
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APPENDIX A

RELEVANT PORTIONS OF 1997-483:

"THE STUDIES ACT OF 1997"



CHAPTER 483
1997 Session Laws

AN ACT TO AUTHORIZE STUDIES BY THE LEGISLATIVE RESEARCH COMMISSION, TO CREATE AND CONTINUE VARIOUS COMMISSIONS, TO CONTINUE A COUNCIL, TO DIRECT STATE AGENCIES AND LEGISLATIVE OVERSIGHT COMMITTEES AND COMMISSIONS TO STUDY SPECIFIED ISSUES, AND TO IMPOSE A MORATORIUM ON SERVICE CORPORATION CONVERSIONS.

The General Assembly of North Carolina enacts:

PART I.----TITLE

Section 1. This act shall be known as "The Studies Act of 1997".

PART II.----LEGISLATIVE RESEARCH COMMISSION

Section 2.4. Dedicated Sources of Revenue (Rand). The Legislative Research Commission may study the use of dedicated funding including the establishment of dedicated sources of revenue for the North Carolina Housing Trust Fund and other sources of low-income housing, Legal Services of North Carolina, and professional firefighter retirement benefits including the appropriate length of service required to receive such benefits.

Section 2.11. Committee Membership. For each Legislative Research Commission committee created during the 1997-98 biennium, the cochairs of the Legislative Research Commission shall appoint the committee membership.

Section 2.12. Reporting Date. For each of the topics the Legislative Research Commission decides to study under this Part or pursuant to G.S. 120-30.17(1), the Commission may report its findings, together with any recommended legislation, to the 1997 General Assembly, 1998 Regular Session, or the 1999 General Assembly.

Section 2.13. Funding. From the funds available to the General Assembly, the Legislative Services Commission may allocate additional monies to fund the work of the Legislative Research Commission.

PART XVII.----EFFECTIVE DATE AND APPLICABILITY

Section 17.1. Except as otherwise specifically provided, this act becomes effective July 1, 1997. If a study is authorized both in this act and the Current

Operations Appropriations Act of 1997, the study shall be implemented in accordance with the Current Operations Appropriations Act of 1997 as ratified.

In the General Assembly read three times and ratified this the 28th day of August, 1997.

s/ Marc Basnight
President Pro Tempore of the Senate

s/ Harold J. Brubaker
Speaker of the House of Representatives

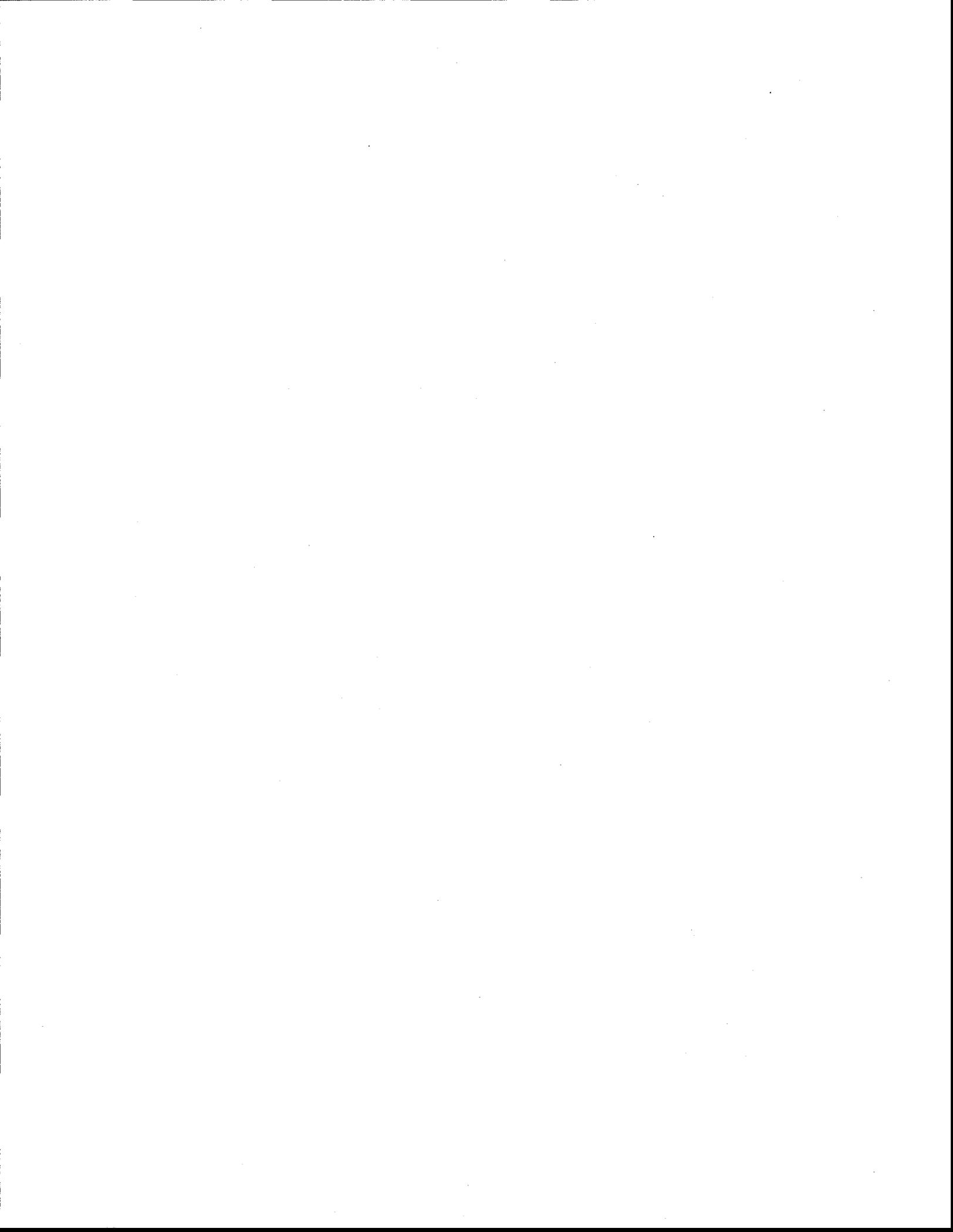
s/ James B. Hunt, Jr.
Governor

Approved 11:00 a.m. this 10th day of September, 1997

APPENDIX B

MEMBERSHIP OF THE LRC COMMITTEE

ON DEDICATED SOURCES OF REVENUE



**LEGISLATIVE RESEARCH COMMISSION
DEDICATED SOURCES OF REVENUE COMMITTEE
1997-1999**

Pro Tem's Appointments

Sen. Frank W. Ballance, Jr., Cochair
Cochair
PO Box 616
Warrenton, NC 27589
(919) 257-3955

Mr. Jeff Cash
116 South Mountain Street
Cherryville, NC 28021

Sen. Wib Gulley
PO Box 3573
Durham, NC 27702
(919) 683-1584

Mr. Fred Mills
2500 Ashley Court
Raleigh, NC 27607

Sen. Anthony E. Rand
2008 Litho Place
Fayetteville, NC 28304
(910) 485-8871

Sen. Larry Shaw
PO Box 1195
Fayetteville, NC 28302
(910) 323-5303

Sen. David F. Weinstein
206 West 31st Street
Lumberton, NC 28358
(910) 739-3048

Speaker's Appointments

Rep. Cary D. Allred,
4307 Sartin Road
Burlington, NC 27217
(910) 229-1980

Rep. E. Nelson Cole
2012 Carpenter Drive
Reidsville, NC 27320
(910) 349-6734

Rep. Michael P. Decker, Sr.
PO Box 141
Walkertown, NC 27051
(910) 595-3008

Rep. Lyons Gray
420-C West 4th Street
Winston-Salem, NC 27116
(910) 722-2311

Rep. Verla C. Insko
610 Surry Road
Chapel Hill, NC 27514
(919) 929- 6115

Rep. Fern H. Shubert
106 East Main Street
Marshville, NC 28103
(704) 624-2720

Rep. Connie K. Wilson
726 Lansdowne Road
Charlotte, NC 28270
(704) 364-2311

LRC Member

Sen. Bob Martin
PO Box 387
Bethel, NC 27812
(919) 825-4361

Staff:

Cindy Avrette
Research Division
(919) 733-2578

Martha Walston
Fiscal Research Division
(919) 733-4910

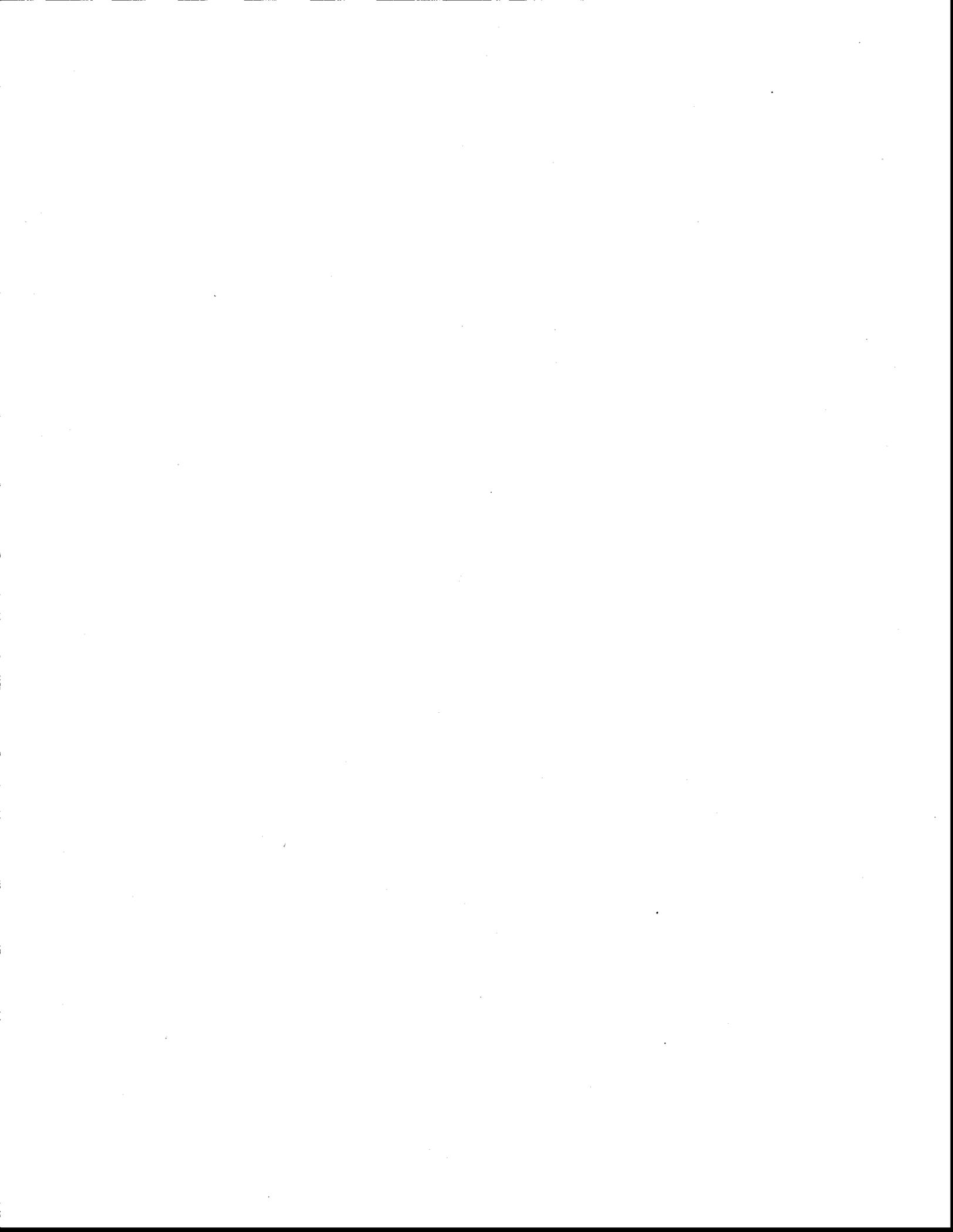
Clerk:

Dee Hodge
(919) 733-5955

APPENDIX C

NORTH CAROLINA DEDICATED REVENUES

Twelve Months Ending June 1997



NORTH CAROLINA DEDICATED REVENUES
Twelve Months Ended June 1997

REVENUE SOURCE	USE OF PROCEEDS	EARMARK AMOUNT	EARMARK FORMULA	WHEN ENACTED
Motor Fuel Tax 105-449.125	--Commercial Leaking Petroleum Underground Storage Tank Cleanup Fund	\$13,298,855	19/32% from an excise tax of 1/2 cent a gallon	1991
	--Noncomm. Leaking Petroleum Underground Storage Tank Cleanup Fund	\$2,099,819	3/32% from an excise tax of 1/2 cent a gallon	1993
	--Water and Air Quality Account	\$6,999,397	5/16% from an excise tax of 1/2 cent a gallon	1993
	--Highway Fund	\$730,926,335	75% of the remaining tax	1930s
	--Highway Trust Fund	\$243,731,231	25% of the remaining tax	1989
Highway Use Tax 105-187.9	Highway Trust Fund	\$407,577,335	Any part of the tax collected at the rate of 3%.	1989.
Gross Receipts Franchise tax on Electricity, Piped Natural Gas, and Telephones 105-116(d); 105-116.1; 105-120	Municipalities for any public purpose	\$148,932,981	3.09% of the gross receipts derived from sales within the city	Early 1950s
Individual Income Tax 105-275.2	Local Governments for any public purpose; Reimbursement for Repeal of Intangibles Tax	\$128,972,502	Based upon the amount received before the repeal of the tax—set amount.	1985, 1995
Corporate Income Tax 105-164.44C	Local Governments for any public purpose	\$6,406,639	Amount that would have been collected in the county during the 1989-90 fiscal year on foods purchased with food stamp coupons.	1985. Reimbursement for repeal of the sales tax on food purchased with food stamps.

REVENUE SOURCE	USE OF PROCEEDS	EARMARK AMOUNT	EARMARK FORMULA	WHEN ENACTED
Corporate Income Tax 105-275.1; 105-277.001	Local Governments for any public purpose.	\$190,174,088	Based on the value of inventories listed in 1987.	1987. Reimbursement for the exclusion of manufacturer's inventories from the property tax.
Corporate Income Tax 105-277.1A	Local governments for any public purpose.	\$7,890,753	Fifty percent of the amount local governments lost in property tax revenue from the homestead exemption in 1990 and 50% of the amount lost by the increase in the homestead exemption in 1998.	1981. Reimbursement for ½ of the property tax lost due to the homestead exemption.
Highway Fund and Highway Trust Fund	Cities for the purpose of constructing and maintaining streets (Powell Fund)	\$76,666,941 \$69,291,651	An amount equal to 1 ¾ cents tax on each gallon of motor fuel collected during the preceding fiscal year	
Unauthorized Substances Tax 105-113.113	State and local law enforcement agencies whose investigations lead to the assessments	\$5,057,843	75% of the tax	1989.
Corporate Income Tax 115C-546.1	Public School Building Capital Fund; used to assist counties with public school building capital needs and their equipment needs under their local school technology plans	\$48,850,120	1/15 of the corporate income taxes received during the preceding quarter, minus \$2,500,000	1987

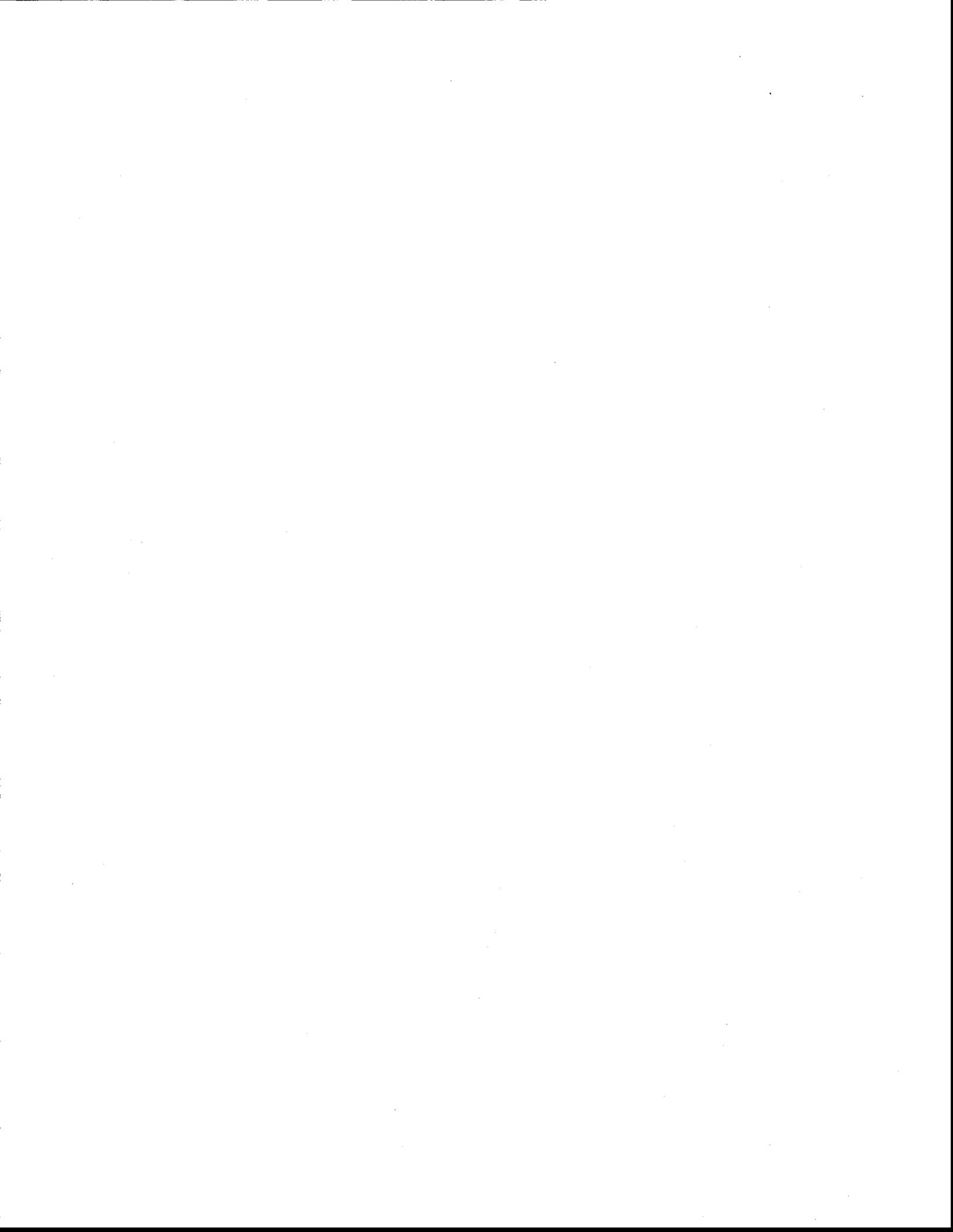
REVENUE SOURCE	USE OF PROCEEDS	EARMARK AMOUNT	EARMARK FORMULA	WHEN ENACTED
Corporate Income Tax 115C-489.1	Critical School Facility Needs Fund; counties and school boards can apply for a grant from the fund to help meet a particular critical need. Grants made based on priority list established in 1988 by the Commission on School Facility Needs.	\$10,000,000	\$2,500,000 per quarter	1987; earmarking repealed when 30 days after the last local school administrative unit on the priority list established in 1988 by the Commission on School Facility Needs is funded. This contingency is not expected to be met until after 2000.
White Goods Disposal Tax 105-187.24	--Solid Waste Management Trust Fund	\$381,916	5% of the tax	1993. Tax will expire on July 1, 1998.
	--White Goods Management Account	\$1,527,688	\$20% of the tax	
	--Counties for white goods management	\$5,728,812	75% of the tax, distributed on a per capita basis	
Scrap Tire Disposal Tax 105-187.19	--Solid Waste Management Trust Fund	\$456,327	5% of the tax	1991. Tax will expire on June 30, 2002.
	--Scrap Tire Disposal Account	\$2,464,165	27% of the tax	
	--Counties for disposal of scrap tires		68% of the tax, distributed on a per capita basis	

REVENUE SOURCE	USE OF PROCEEDS	EARMARK AMOUNT	EARMARK FORMULA	WHEN ENACTED
Dry-Cleaning Solvent Tax 105-187.24	Dry-Cleaning Solvent Clean-Up Fund	\$1,000,000 (estimate)	Entire tax, less administrative expenses of the Department of Revenue	1998. Tax repealed January 1, 2010.
Public Utility Regulatory Fee 62-302	Utilities Commission and Public Staff Fund; money spent only upon appropriation by the General Assembly; used to pay the expenses of the Commission and the Public Staff in regulating public utilities.	\$9,040,981	0.09% of each public utility's NC jurisdictional revenues; rate determined annually by an act of the General Assembly	1989
Insurance Regulatory Charge 58-6-25	Department of Insurance Fund; money spent only upon appropriation by the General Assembly; used to pay the expenses of the Department of Insurance	\$21,101,760	6.5% of the insurance company's premium tax liability for a taxable year; rate determined annually by an act of the General Assembly	1991
Real Estate Conveyance Tax 105-228.30	Natural Heritage Trust Fund	\$6,019,264	25% of the amount the State receives from this tax	1991, 1995. Amount of the earmarking increased in 1995 from 15% to 25%.
Real Estate Conveyance Tax 105-228.30	Parks and Recreation Trust Fund	\$18,057,792	75% of the amount the State receives from this tax	1995.

REVENUE SOURCE	USE OF PROCEEDS	EARMARK AMOUNT	EARMARK FORMULA	WHEN ENACTED
Motor Vehicle Inspection Fee 20-183.7	--Volunteer Rescue/EMS Fund	\$955,024	.15 of each fee	
	--Rescue Squad Workers' Relief Fund	\$636,683	.10 of each fee	
	--Division of Air Quality	\$625,678	.35 of the Emissions sticker fee	
General Fund unreserved credit balance	Clean Water Management Fund	\$49,354,893	6.5% of any unreserved credit balance of the General Fund, or \$30,000,000, whichever is greater.	1996.
General Fund unreserved credit balance	Repairs and Renovations Reserve Account	\$174,260,955	3% of the replacement value of all state buildings supported from the General Fund	1993.
General Fund unreserved credit balance	Savings Reserve Account	0, because reached cap amount	25% of any unreserved General Fund credit balance, subject to a cap of 5% of the amount appropriated the preceding year for the General Fund operating budget	1991
Highway Fund 105-449.126	Wildlife Resources Fund, to be used for boating and water safety	\$1,237,306	1/6 of 1% of the amount allocated to the Highway Fund from the motor fuel tax	
Privilege License Tax 105-102.6	Solid Waste Management Fund for nonrecycled newsprint	\$2,929.00		

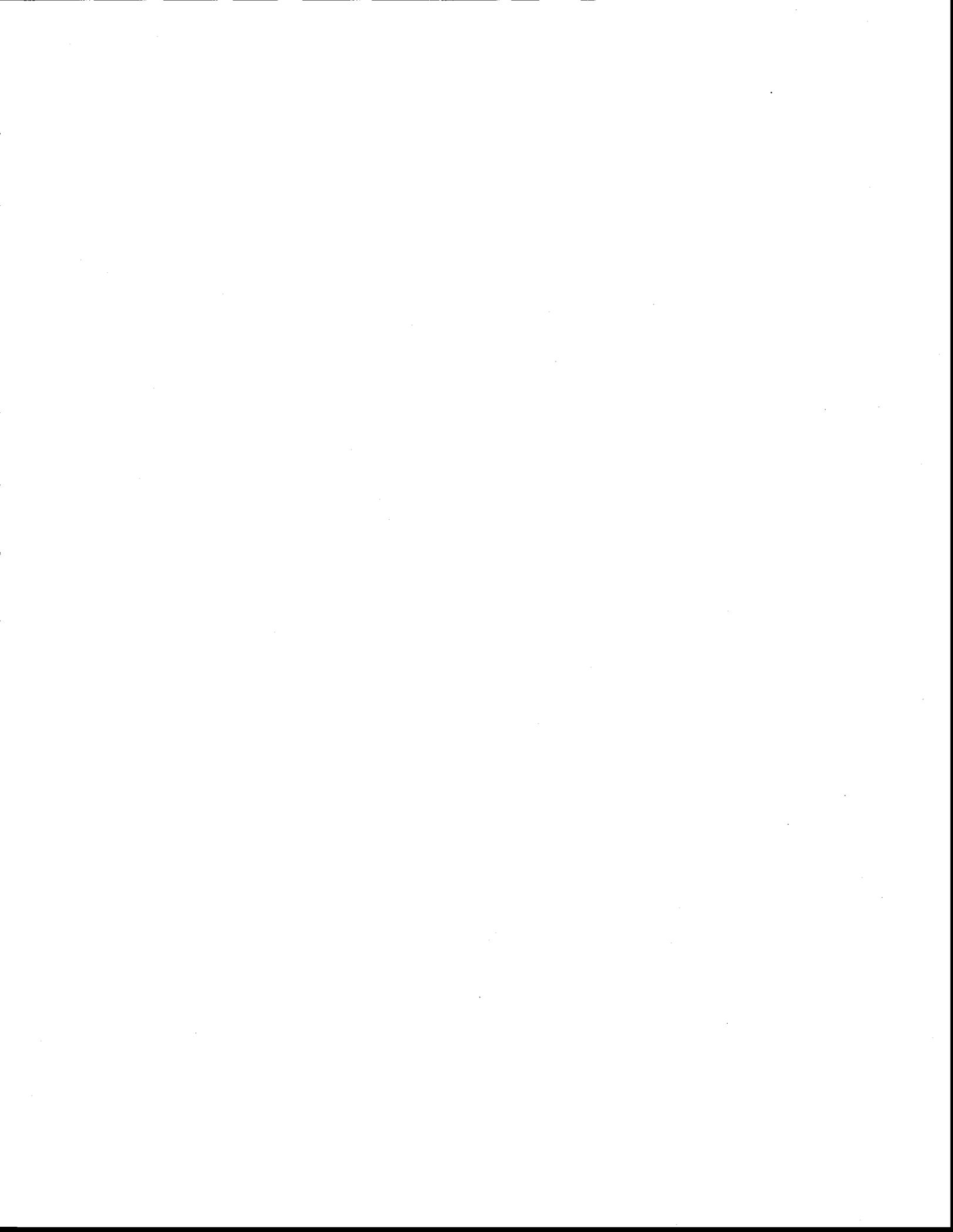
REVENUE SOURCE	USE OF PROCEEDS	EARMARK AMOUNT	EARMARK FORMULA	WHEN ENACTED
Individual Income Tax 105-159.1	NC Political Parties Financing Fund	\$210,126	A taxpayer may designate that \$1 (\$2 if a joint return) be credited to this Fund for the use of the political party designated by the taxpayer.	1977
Sales and Use Tax 105-164.44(B)	Wildlife Resources Fund	\$7,649,271	The amount transferred the preceding year plus or minus the percentage of that amount by which the total S&U tax collections increased or decreased during the preceding fiscal year. Prior to 1995, the amount was set at \$3,731,116. The amount, in theory, coincides with the sales and use tax from hunting and fishing supplies and equipment	1980s
Excise Tax on Wine	NC Grape Growers Council to be used to promote the NC grape and wine industry	\$90,000	94% of the tax collected on unfortified wine and 95% of the tax collected on fortified wine; cannot exceed \$150,000	1980s
Additional tax of 1.33% on Fire and Lightning Insurance Gross Premiums Tax 105-228.5	Volunteer Fire Department Fund; used to make grants to volunteer fire departments for equipment and capital improvements	\$1,838,608	25% of the revenue generated by the additional tax	

REVENUE SOURCE	USE OF PROCEEDS	EARMARK AMOUNT	EARMARK FORMULA	WHEN ENACTED
Additional tax of ½ of 1% on Fire and Lightning Insurance Gross Premiums Tax 105-228.5	--State Fireman's Association for general purposes --Local fire districts --Department of Insurance	\$ 83,000 \$2,620,000 \$ 55,000	3% State Fireman's Association; 95% to local fire districts in proportion to the amount of business done in the district; 2% to the Department of Insurance for administering the disbursements.	



APPENDIX D

LIST OF THE SPEAKERS THAT ADDRESSED
THE LRC COMMITTEE ON
DEDICATED SOURCES OF REVENUE



**List of Speakers that Addressed
the LRC Committee on
Dedicated Sources of Revenue
by Topic**

Low-Income Housing:

Linda Shaw, Executive Director of the Low-Income Housing Coalition

Bill Dowse, Senior Program Director of the North Carolina Housing Finance Agency

Will Mann, Senior Vice President of Wachovia Bank

Martin Eakes, Executive Director of the Center for Community Self-Help

Bob Kucab, Executive Director of North Carolina Housing Finance Agency

Mark Hendrickson, Former Executive Director of the Florida and Arkansas State Housing Finance Agencies; Currently, President of Hendrickson Company of Tallahassee, Florida

Legal Services of North Carolina:

Deborah Weissman, Executive Director of Legal Services of North Carolina

James Talley, Past President of the North Carolian Bar Association, member of the North Carolina Commission for the Delivery of Civil Legal Services, and Chair of the Legal Services Task Force

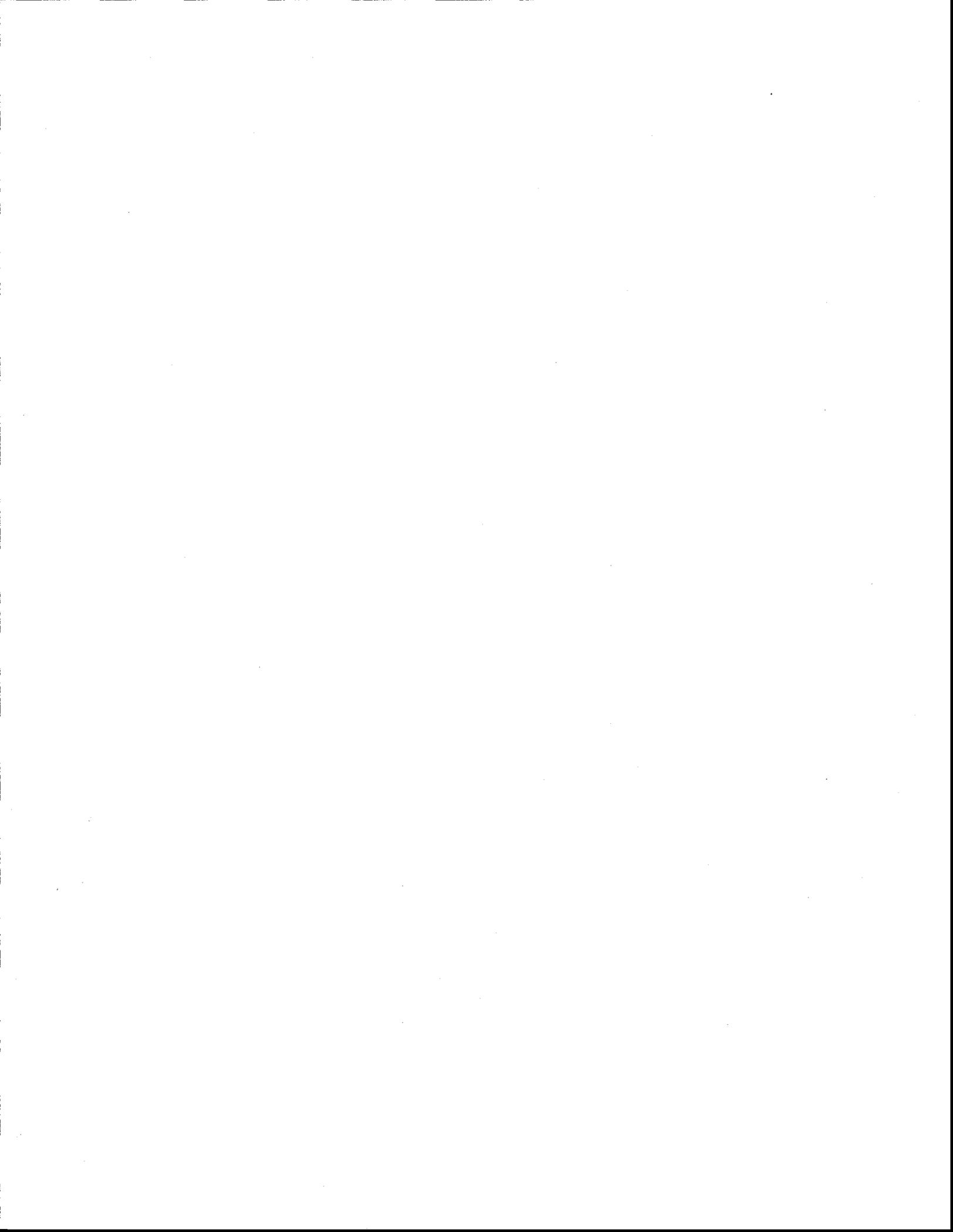
Elizabeth L. Quick, President of the North Carolina Bar Association

The Honorable Gerald Arnold, Chief Judge of the North Carolina Court of Appeals, and member of the North Carolina Commission for the Delivery of Civil Legal Services

Professional Firefighters Retirement Benefits:

David Anders, President of Professional Firefighters of North Carolina

Stanley Moore, Fiscal Research Division

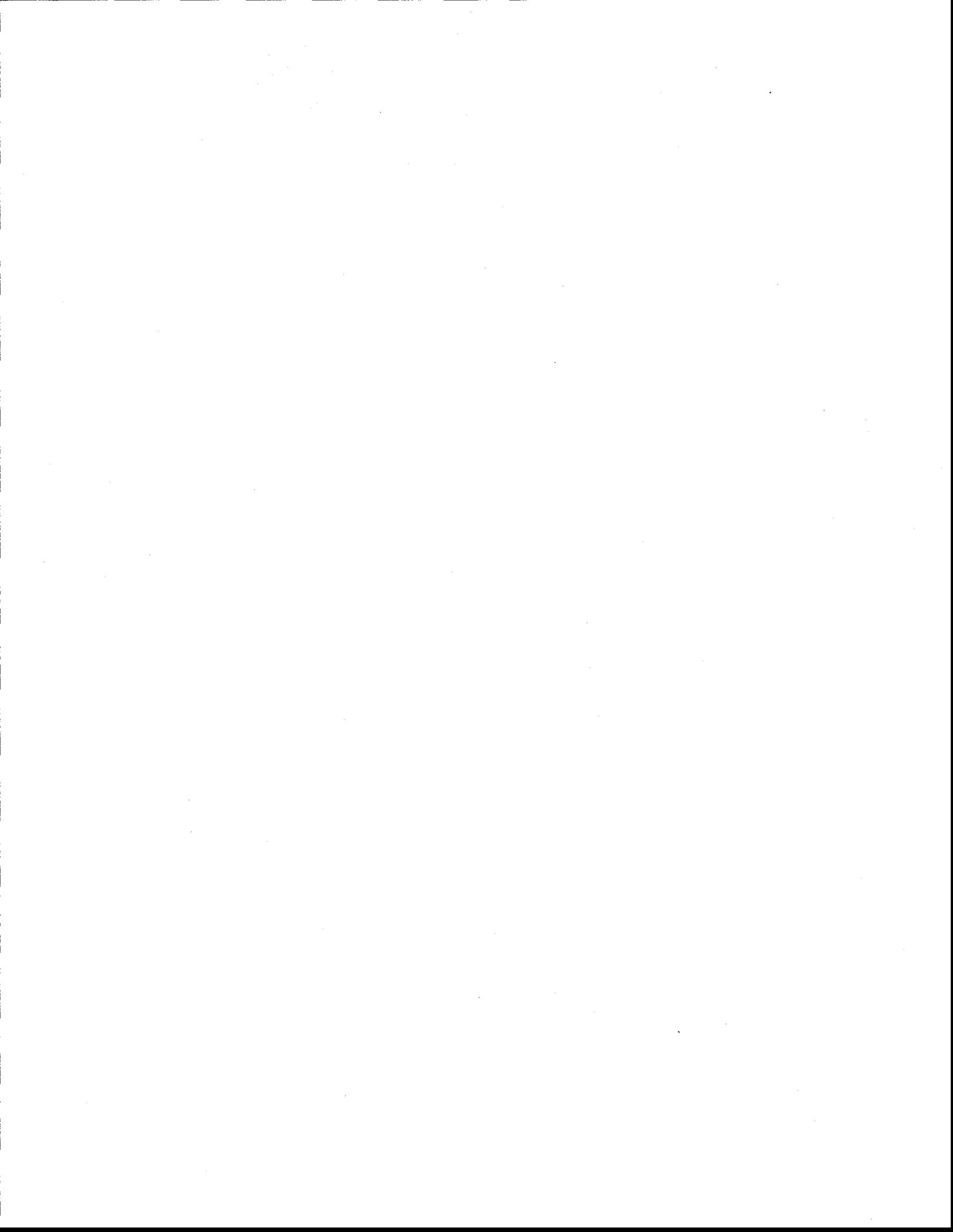


APPENDIX E

**CHART SHOWING THE STATES THAT IMPOSE
A REAL ESTATE TRANSFER TAX**

AND

**SHOWING THE STATES THAT DEDICATE
REVENUE FOR HOUSING**



V

State	Transfer or Conveyance Tax	Rate	Dedicated Revenue Source for Housing
NC*	Excise stamp tax on conveyance	\$1 per \$500 of consideration or value	½ remains with county for general purposes ½ remitted to Dept. of Revenue (75% to Parks and Recreation Trust Fund and 25% to Natural Heritage Trust Fund)
Virginia	Deed and mortgage tax realty transfer tax local recordation tax	15¢ per \$100 50¢ per \$500 1/3 of state deed or mortgage tax	
South Carolina	Recording fee	\$1.85 per \$500 of realty's value	Yes
Tennessee	Mortgage tax real estate transfer tax	11.5¢ per \$100 of amount secured 37¢ per 100	Yes

*Six counties levy a land transfer tax at a maximum tax rate of 1% on the sale value of any private real estate transaction or the value of interest conveyed in such a transaction if the lease is at least 10 years long. The counties are Camden, Chowan, Currituck, Dare, Pasquotank, and Perquimans. Washington County is also authorized to impose this tax.

State	Transfer or Conveyance Tax	Rate	Dedicated Revenue Source for Housing
Georgia	Realty transfer tax	\$1 for first \$1,000 and 10¢ for each additional \$100	
Florida	Documentary excise tax	70¢ per \$100 for conveyance of realty; 35¢ per \$100 for mortgages, bonds	Yes
Kentucky	Realty Transfer tax	50¢ per \$500	KHC's Debt Reserve Fund
Maine	Realty Transfer tax	\$2.20 per \$500	Yes
Alabama	Securities Filing tax Deed Filing Tax Mortgage Filing Tax	25¢ per \$100 50¢ per \$500 15¢ per \$100	
Arizona	Real Estate Transfer Fee	\$2 per deed or contract	Unclaimed property fund
Arkansas	Realty Transfer Tax	\$3.30 per \$1,000	

State	Transfer or Conveyance Tax	Rate	Dedicated Revenue Source for Housing
California	Local Realty Transfer Tax	55¢ per \$500	Tideland Oil Revenues
Colorado	Realty Transfer Tax	1¢ per \$100	
Connecticut	Realty Transfer Tax	0.5% plus additional 0.11% 1% on non-residential conveyances 0.5% on first \$800,000 of residential conveyance and 1% on excess of \$800,000	Interest on Real Estate Escrow Accounts
Delaware	Realty Transfer Tax County Transfer Tax	2% of value not > 1%	Yes
Hawaii	Realty Conveyance Tax	10¢ per \$100	Yes
Iowa	Realty Transfer Tax	80¢ per \$500	Yes
Kansas	Mortgage Registration Fee	26¢ per \$100	Yes

State	Transfer or Conveyance Tax	Rate	Dedicated Revenue Source for Housing
Massachusetts	Real Estate Transfer Tax	\$2 per \$500 plus 14% surtax	
Michigan	Realty Transfer Tax	State \$3.75 per \$500 County 55¢ per \$500 of population <2 million Not more than 75¢ if population 2 million or more	
Mississippi	Mineral documentary Tax		
Nebraska	Documentary Stamp Tax	\$1.75 per \$1,000	Yes
Nevada	Realty Transfer Tax	65¢ per \$500	Yes
New Hampshire	Realty Transfer Tax	35¢ per \$100	Developers fees
New Jersey	Realty Transfer Tax	\$1.75 per \$500 75¢ for each \$500 of consideration in excess of \$150,000	Yes Revenues in excess of \$15 million received from tax are credited to New Jersey Shore Protection Fund

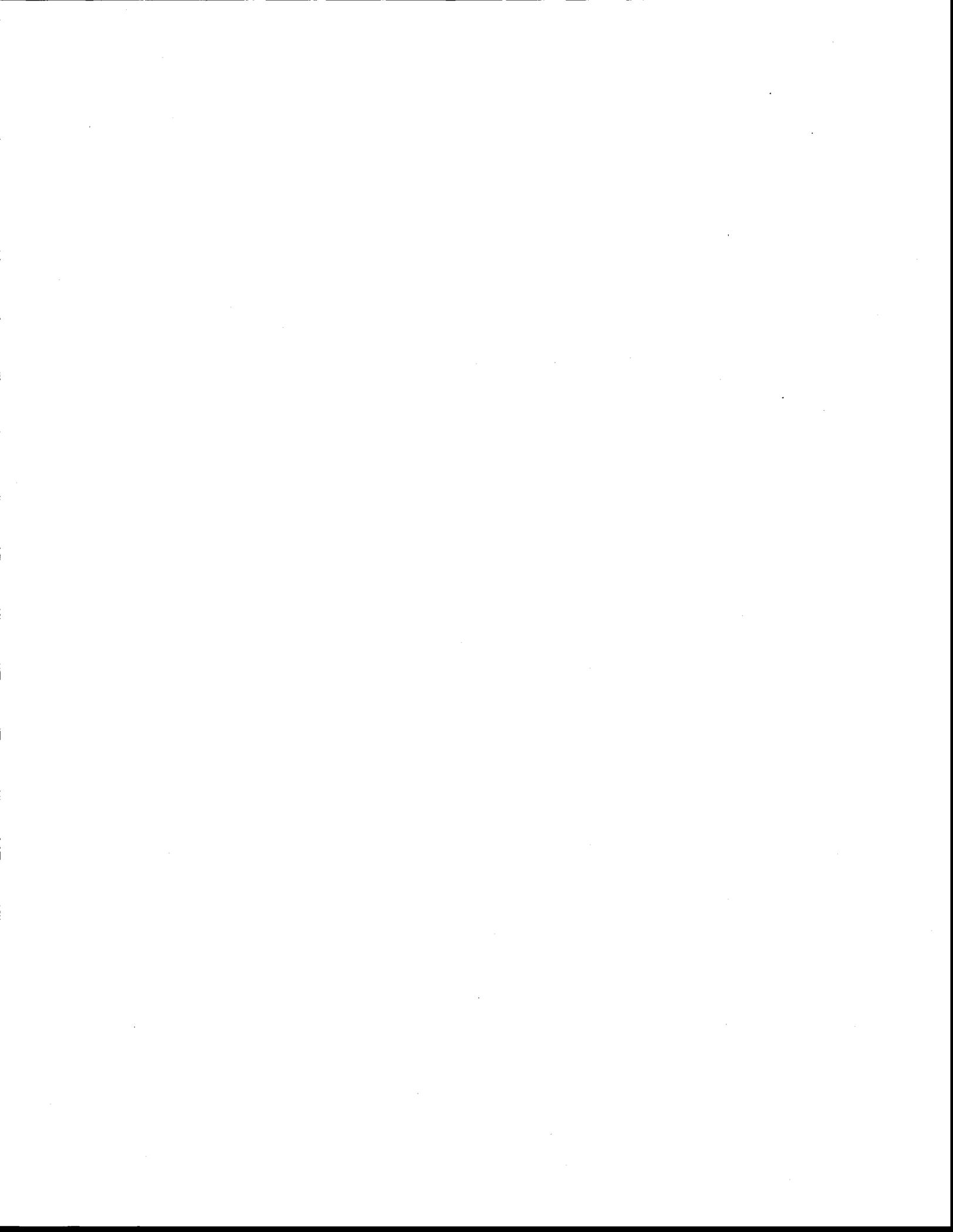
State	Transfer or Conveyance Tax	Rate	Dedicated Revenue Source for Housing
Pennsylvania	Realty Transfer Tax	1% of value	
Rhode Island	Real Estate Conveyance Tax	\$1.40 per \$500	
South Dakota	Real estate Transfer Tax	50¢ per \$500	
Vermont	Property Transfer Tax	1.25% of value If a principal residence then 0.5% of first \$100,000 and 1.25% of value over \$100,000	Yes
Washington	Excise tax on real estate sales county and city tax	1.28% of selling price not exceeding 0.25%	Penalty on real estate excise tax
West Virginia	Realty Transfer Tax	\$1.10 per \$500 County 55¢ per \$500	
Wisconsin	Realty Transfer Tax	30¢ per \$100	Interest on Real Estate Escrow Accounts

State	Transfer or Conveyance Tax	Rate	Dedicated Revenue Source for Housing
Minnesota	Mortgage Registry Tax Deed Tax	23¢ per \$100 \$1.65 per \$500	Interest on Real Estate Escrow Accounts; Forfeited Bonding Fees

The following states impose no transfer or conveyance tax: Alaska, Idaho, Indiana, Louisiana, Missouri, Montana, New Mexico, North Dakota, Oregon, Texas, Utah, Wyoming.

APPENDIX F

WHAT IS LEGAL SERVICES OF NORTH CAROLINA?



What Is Legal Services of North Carolina?

The mission of Legal Services of North Carolina (LSNC) is to provide free legal representation to poor people in civil matters, both ensuring access to justice and contributing to the stability of society.

What is LSNC?

- Not-for-profit organization created in 1976.
- Governed by bipartisan Board of Directors.
- Provides equal access to justice under the law for all North Carolinians in civil matters including family, housing, income maintenance, consumer and employment law.

What is the need for legal services?

- More than 27,000 cases were handled in civil matters throughout the state in 1996, benefiting an estimated 51,000 people.
- Approximately 1.2 million persons are eligible for legal services throughout the state.
- Approximately 560,000 people eligible for legal services have unmet civil legal needs.
- 1:15,000 ratio of attorneys to poor people throughout the state in 1996.
- More than 30% of cases in the area of family law (*most involve domestic violence*).
- Programs work collaboratively with other community/government agencies.

Why support legal services?

- The United States Constitution and North Carolina Constitution provide equal protection under laws.
- *All* citizens deserve access to our system of justice.
- Addressing initial civil issues of the individual can avoid domino effect faced by individuals living near poverty line and thus decrease the possibility of greater burdens on society in the form of increased costs for health care, law enforcement, and public welfare.
- Legal services is a cost-effective means of stopping the downward spiral—and the resulting consequences.

What are the sources of funding for legal services?

- Legal Services Corporation
- IOLTA
- State of North Carolina
- Title III
- United Way
- Charitable Foundations

An individual case

- Individual cases are the cornerstone of legal services programs. Although these cases are sometimes referred to as "routine," such cases often represent matters of crisis for individual clients and their families.

The most frequent problem presented to legal services is in the area of family law, particularly domestic violence. Legal services works diligently to turn the tide on the growing epidemic of domestic violence.

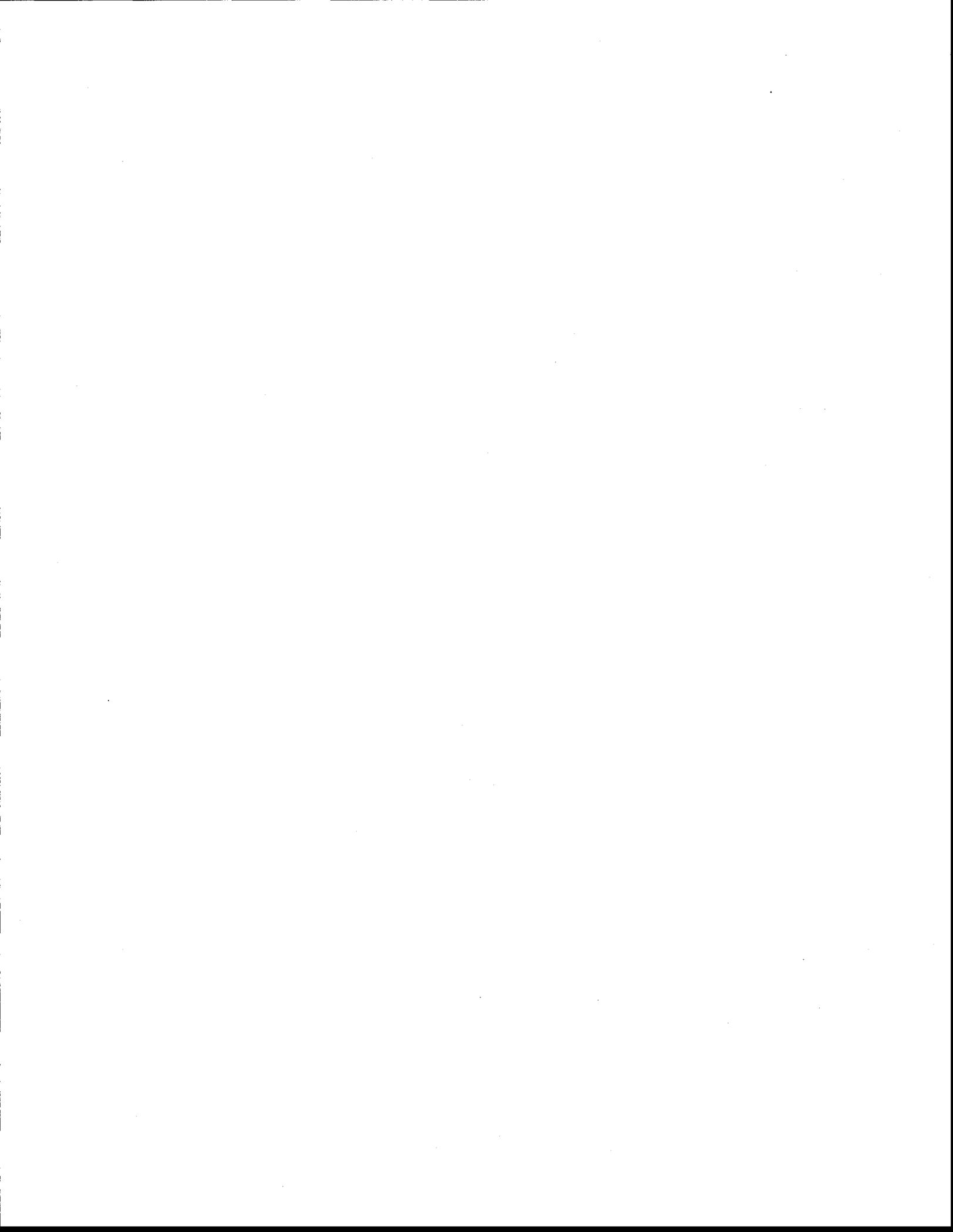
In one case, Pisgah Legal Services (PLS) helped change the lives of a mother and her two children caught in the dilemma of having to choose between homelessness and continuing brutality. The mother had been battered by her husband for several years. The violence included him biting and choking her, putting a gun to her head and a knife to her throat, punching her, and burning her with cigarettes.

A local domestic violence program, where the woman and her children had fled, referred the woman to PLS. PLS secured custody of the children and possession of their home for the mother. The husband was ordered to stay away from the woman for a year and not to possess a firearm during that time. The safe haven allowed the woman and her two children to establish a stable and nurturing family environment.

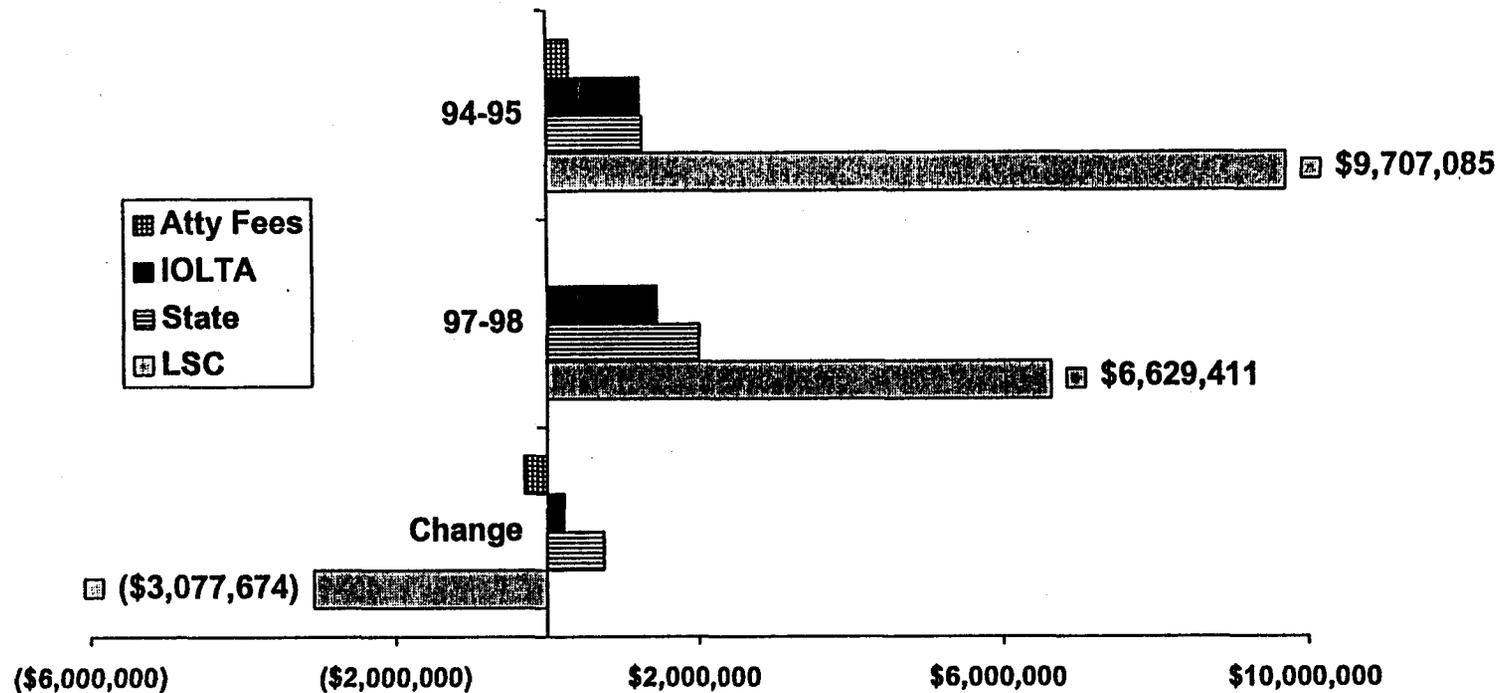
APPENDIX G

**FUNDING COMPARISON FOR
LEGAL SERVICES OF NORTH CAROLINA:**

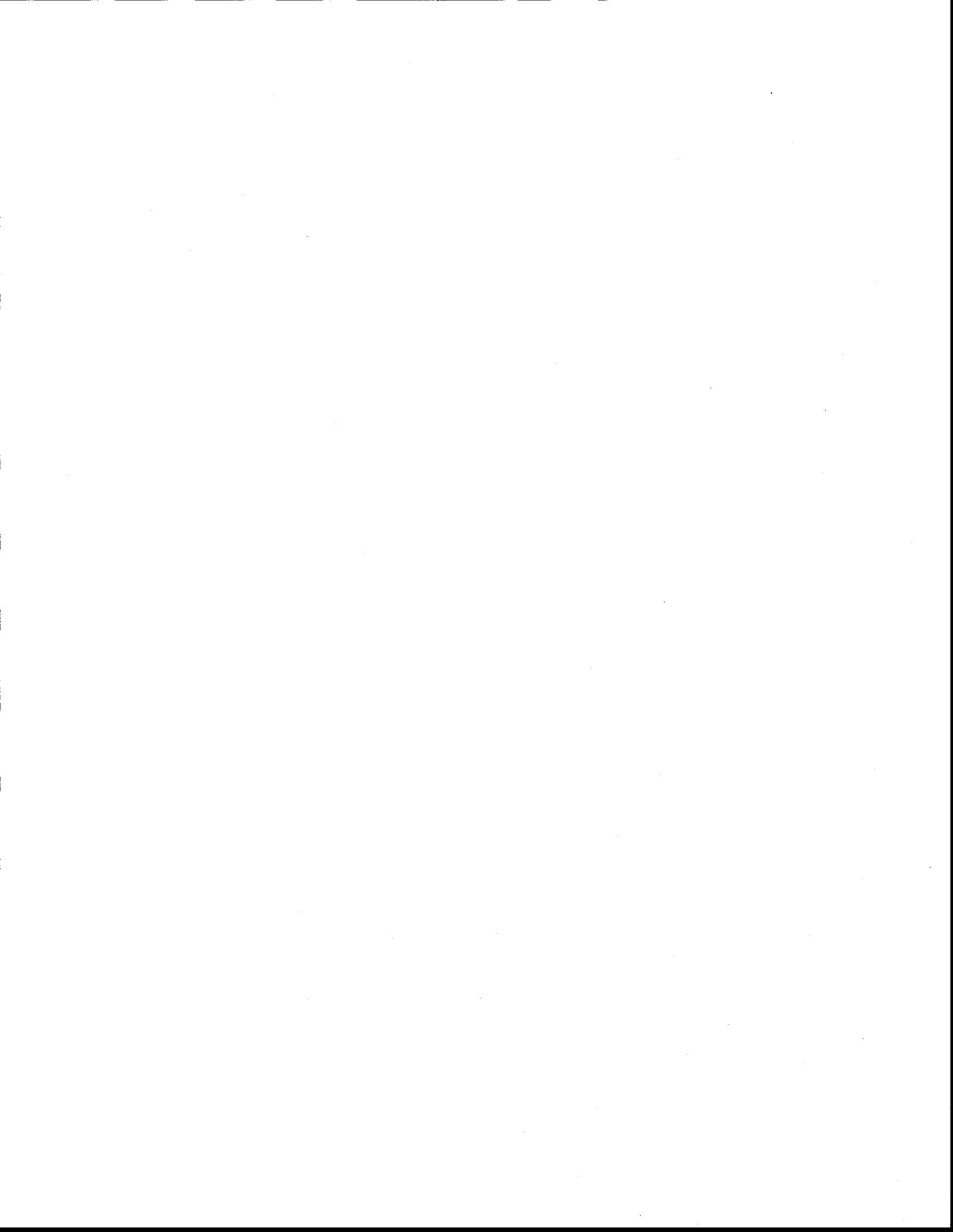
1994-1997



Funding Comparison: 1994 to 1998

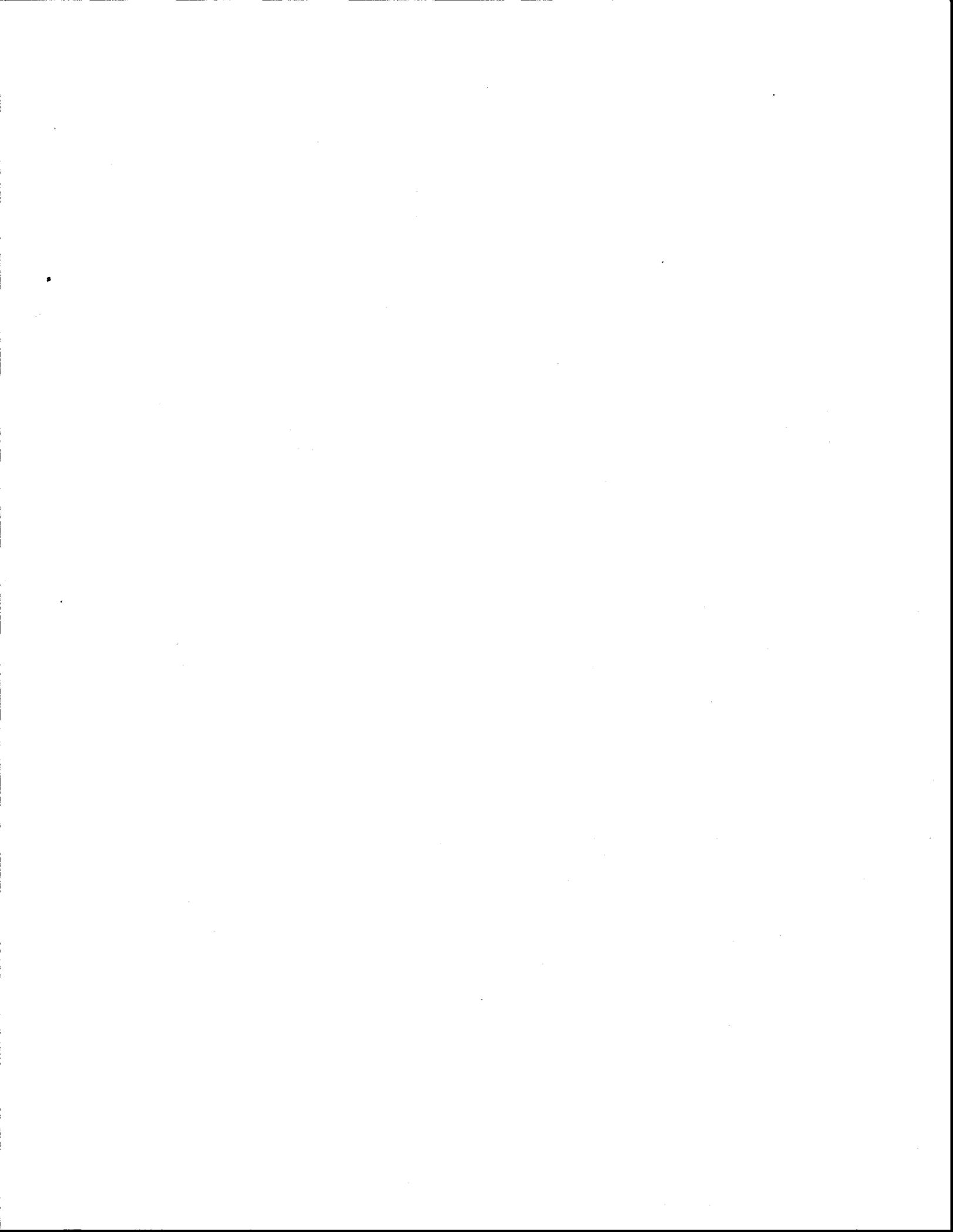


Legal services funding from statewide sources decreased by \$2.4 million or 19% from 1995 to 1998.



APPENDIX H

**WHAT STATES ARE DOING FOR LEGAL
SERVICES PROVIDERS**



What States Are Doing for Legal Services Providers

States with Filing Fee Surcharge (20)

- | | | | |
|-------------------------------|---------------------------------|----------------|------------------|
| ◆ Florida (specific counties) | ◆ Kentucky | ◆ Nevada | ◆ South Carolina |
| ◆ Georgia (by county) | ◆ Louisiana (specific counties) | ◆ North Dakota | ◆ Tennessee |
| ◆ Hawaii | ◆ Maine | ◆ Ohio | ◆ Texas |
| ◆ Illinois (by county) | ◆ Michigan | ◆ Oregon | ◆ Virginia |
| ◆ Kansas | ◆ Nebraska | ◆ Rhode Island | ◆ Washington |

States Seeking Surcharge (5)

- | | | | |
|------------------------|------------|---------------|------------------|
| ◆ Arizona | ◆ Maryland | ◆ Mississippi | ◆ North Carolina |
| ◆ Illinois (statewide) | | | |

States with Legislative Appropriations (19)

- | | | | |
|------------|-----------------|------------------|----------------|
| ◆ Alaska | ◆ Maine | ◆ New Hampshire | ◆ Pennsylvania |
| ◆ Hawaii | ◆ Maryland | ◆ New Jersey | ◆ Vermont |
| ◆ Indiana | ◆ Massachusetts | ◆ New York | ◆ Virginia |
| ◆ Iowa | ◆ Minnesota | ◆ North Carolina | ◆ Washington |
| ◆ Kentucky | ◆ Missouri | ◆ Oklahoma | |

States with Fee-for-Service Contracts (4)

- | | | | |
|---------------|------------|----------|-----------|
| ◆ Connecticut | ◆ Delaware | ◆ Kansas | ◆ Montana |
|---------------|------------|----------|-----------|

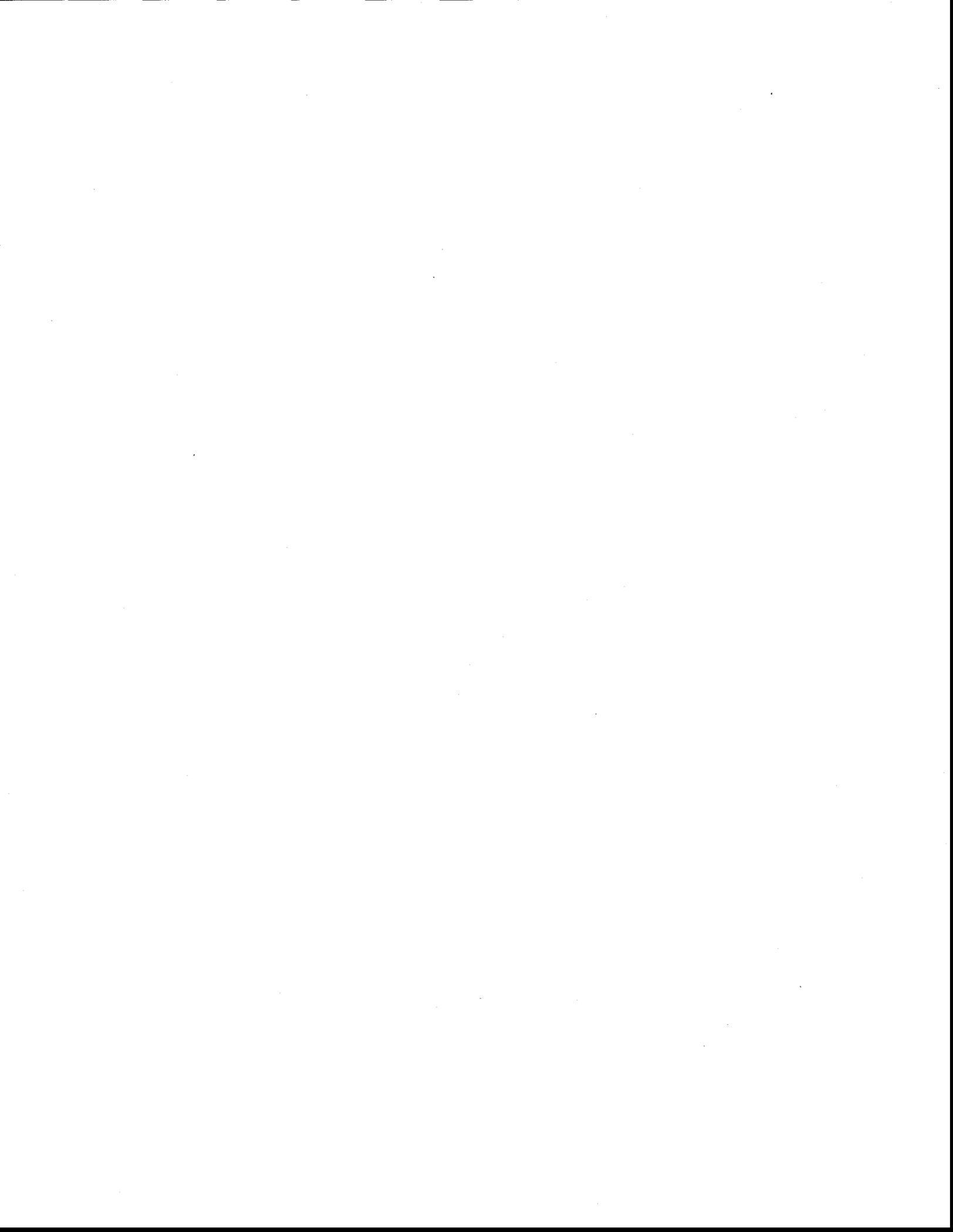
States Seeking Appropriations (3)

- | | | |
|-----------|------------|--------|
| ◆ Arizona | ◆ Colorado | ◆ Ohio |
|-----------|------------|--------|



APPENDIX I

**COMPARISON OF RETIREMENT BENEFITS FOR
TEACHERS, STATE, AND LOCAL EMPLOYEES,
STATE AND LOCAL LAW ENFORCEMENT OFFICERS,
AND FIRE FIGHTERS**



	STATE EMPLOYEES	CITY EMPLOYEES ENFORCEMENT	LOCAL LAW ENFORCEMENT	LOCAL EMPLOYEES	FIREMEN
1. Eligibility.	All full-time and permanent public school employees and State employees,	All full-time and permanent law enforcement officers	All law enforcement officers employed by a participating unit,	All permanent employees employed by a participating unit,	All permanent firemen employed by a participating unit,
2. Employee Contributions.	6% of salary.	6% of salary.	6% of salary.	6% of salary.	6% of salary.
3. Vesting requirements.	Five years of membership service (monthly benefits may begin at age 60)	Five years of membership service (monthly benefits may begin at age 55)	Five years of creditable service (monthly benefits may begin at age 55 .	Five years of creditable service (monthly benefits may begin at age 60	Five years of creditable service (monthly benefits may begin at age 60
4. Service Required for Unreduced Retirement.	30 years of creditable service, regardless of age or age 65 with 5 years of credit or age 60 with 25 years of credit	30 years of creditable service, regardless of age or age 55 with 5 years	30 years of creditable service, regardless of age or age 55 with 5 years of credit.	30 years of creditable service, regardless of age or age 65 with 5 years of credit or age 60 with 25 years of credit.	30 years of creditable service, regardless of age or age 65 with 5 years of credit or age 60 with 25 years of credit.
5. Formula for Normal Retirement Benefit.	1.80% of AFC (Average Final Compensation of the 4 consecutive years of creditable service that produce the highest average) times years of creditable service.	1.80% of AFC (Average Final Compensation of the 4 consecutive years of creditable service that produce the highest average) times years of creditable service.	1.76% of AFC (Average Final Compensation of the 4 consecutive years of creditable service that produce the highest average) times years of creditable service.	1.76% of AFC (Average Final Compensation of the 4 consecutive years of creditable service that produce the highest average) times years of creditable service.	1.76% of AFC (Average Final Compensation of the 4 consecutive years of creditable service that produce the highest average) times years of creditable service.
6. Early Retirement	Age 50 with 20 years of creditable service;	Age 50 with 15 years of creditable service;	Age 50 with 15 years of creditable service;	Age 50 with 20 years of creditable service;	Age 50 with 20 years of creditable service;
7. Disability Requirements	Disability Income Plan	Disability Income Plan	Five Years (one year for line-of-duty)	Five Year	Five Years (one year for line-of-duty)
<u>Other Benefits</u>					
1. Employer Contributions to the 401(k) Plan	None	Monthly contributions equal to 5% of salary. with immediate vesting	Monthly contributions equal to 5% of salary. with immediate vesting	None	None
2. Special Separation Allowance	None	A special separation allowance equal to .85% of salary for each year of service paid to retired law enforcement officer up until age 62. To qualify, the law enforcement officer must have 30 or more years of service or age 55 with five years of service.	A special separation allowance equal to .85% of salary for each year of service paid to retired law enforcement officer up until age 62. To qualify, the law enforcement officer must have 30 or more years of service or age 55 with five years of service.	None	None

	MEMBERS & STATE EMPLOYEES	STATE LAW ENFORCEMENT	LOCAL LAW ENFORCEMENT	LOCAL EMPLOYEES	FIREMEN
3. Firemen's & Rescue Squad Workers' Pension Fund	Not Members	Not Members	Not Members	Not Members	Fund pay \$141 per month after age 55 with 20 years of service.
4. Supplemental Retirement Plans	No	No	No	No	Funds collected from Premium Tax can be used to create supplemental retirement benefits
EXAMPLES OF BENEFITS PAYABLE WITH 30 YEARS AND AGE 55 (AFC OF \$40,000, Final salary of \$43,000)					
Basics Retirement	\$21,600	\$21,600	\$21,120	\$21,120	\$21,120
401(k) Plan	\$ 0	\$ 8,000	\$ 8,000	\$ 0	\$ 0
Separation Allowance	\$ 0	\$10,965	\$10,965	\$ 0	\$ 0
Firemen's Pension Fund	\$ 0	\$ 0	\$ 0	\$ 0	1,692
Supplement Benefits	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,000
TOTAL	\$21,600	\$40,565	\$40,085	\$21,120	\$23,812

APPENDIX J

**LEGAL DECISIONS AFFECTING FIREFIGHTER
BENEFITS**



LEGAL DECISIONS AFFECTING FIREFIGHTER BENEFITS

In 1959 the Legislature passed three acts intended to set up a fund for retired firefighters. Under the acts a tax was to be levied on insurance companies of 1% of the premiums paid on fire and lightning policies. However, this tax was not to be levied on insurance policies written on property in "unprotected areas". The acts further provided that the State's contribution to the pension fund was to be derived solely from the proceeds of the 1% tax. The North Carolina Supreme court found that the tax violated Article I, Section 19 of the State Constitution, because it was imposed exclusively on a particular group of insurance companies for the benefit of a particular group of public employees. Great American Ins. Co. v. Johnson, 257 N.C. 367, 126 S.E.2d 92 (1962).

In 1961, the Legislature amended the 1959 statutes by deleting those portions which limited payment to the Firemen's Pension Fund to collections from insurance companies. The Legislature then made a line item appropriation to the Firemen's Pension Fund. This appropriation was specific and in no way related to or dependent on taxes paid by insurance companies. The appropriation in 1959 had been conditional and was expressly dependent on taxes collected from insurance companies. The North Carolina Supreme Court upheld the 1961 legislation in Insurance Co. v. High, Commissioner of Revenue, 264 N.C. 752 (1965). The Court also pointed out that there was settled law on the following: (1) The Legislature may appropriate public funds to pension local firemen, employees of State agencies and subdivisions, and (2) the Legislature may not tax a particular class for the sole benefit of a particular group

Under current law, every insurance company doing business in a fire district must report to the Department of Revenue each year an account of all premiums collected and received from fire and lightning insurance business done within the limits of each fire district during the preceding calendar year and then pay the tax levied in G.S. 105-228.5(d) (4). This tax rate is $\frac{1}{2}$ of 1% of these premiums. DOR then credits the net proceeds of the tax to the Department of Insurance for disbursement as follows: 3% goes to the State Firemen's Association for general purposes, 2% remains with the Department of Insurance for the purpose of administering the disbursement of funds by the board of trustees, and the remaining proceeds go to the treasurer of each fire district for use of the board of trustees of the firemen's local relief fund in proportion to the amount of business done in the fire district. The board of trustees has entire control of these funds and must disburse them only for the purposes set out in G.S. 58-84-35. The 3% that goes to the State firemen's Association is disbursed pursuant to G.S. 58-85-1.

In 1996, an advisory opinion was issued by the Attorney General regarding the constitutionality of the portion of the premium tax to be disbursed to the State Firemen's Association. These proceeds are used "for the relief of firemen, members of such Association, who may be injured or rendered sick by disease contracted in the actual discharge of duty as firemen, and for the relief of widows, children, and if there be no widow or children, then dependent mothers of such firemen killed or dying from disease

so contracted in discharge of such duty." G.S. 58-85-1. The Attorney General concluded that the appropriation of tax revenue to the Association was for a public purpose and, therefore, constitutional. As support, the Attorney General cites Article V, Section 2(7) of the North Carolina Constitution. This subsection was enacted in 1973 and specifically allows direct appropriation to private entities for public purposes:

The General Assembly may enact laws whereby the State, any county, city or town, and any other public corporation may contract with and appropriate money to any person, association, or corporation for the accomplishment of public purposes only.

The North Carolina Supreme Court has held that under the above subsection, direct disbursement of public funds to private entities is a constitutionally permissible means of accomplishing a public purpose provided there is statutory authority to make such appropriation. Hughey v. Cloninger, 297 N.C. 86, 95 (1979). So long as the State Firemen's Association serves a public purpose, it may receive public funds.

